



# Washington State Auditor's Office

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## Financial Statements and Federal Single Audit Report

### City of Mountlake Terrace

Snohomish County

For the period January 1, 2014 through December 31, 2014

Published August 6, 2015

Report No. 1014651





## Washington State Auditor's Office

August 6, 2015

Council  
City of Mountlake Terrace  
Mountlake Terrace, Washington

### **Report on Financial Statements and Federal Single Audit**

Please find attached our report on the City of Mountlake Terrace's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the City's financial condition.

Sincerely,

JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

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## FEDERAL SUMMARY

**City of Mountlake Terrace  
Snohomish County  
January 1, 2014 through December 31, 2014**

The results of our audit of the City of Mountlake Terrace are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

### Financial Statements

An unmodified opinion was issued on the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

#### Internal Control Over Financial Reporting:

- *Significant Deficiencies:* We identified deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the City.

### Federal Awards

#### Internal Control Over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the City's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

## Identification of Major Programs:

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
20.205	Highway Planning and Construction Cluster - Highway Planning and Construction

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The City did not qualify as a low-risk auditee under OMB Circular A-133.

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### City of Mountlake Terrace Snohomish County January 1, 2014 through December 31, 2014

**2014-001    The City's internal controls over year-end closing procedures for payables were not adequate to ensure the financial statements were accurate and complete.**

#### *Background*

In the prior audit, we reported deficiencies in the internal controls related to the City's preparation of financial statements. Following our audit, City staff took significant steps to improve internal controls and address the weaknesses identified. All of the errors identified in the prior audit were corrected and the City received an unmodified opinion on its financial statements.

#### *Description of Condition*

Our current audit identified a weakness in the City's procedures for processing year-end accruals over accounts and wages payables which represents a significant deficiency. Governmental Auditing Standards, prescribed by the Comptroller General of the United States, require the auditor to communicate significant deficiencies, defined in the Applicable Laws and Regulations section below, as a finding.

The purpose of the year-end accrual process is to recognize expenses in the period in which the economic events are incurred, regardless of when the payment is paid, to ensure accurate presentation of expenses. Accrual basis accounting records expenses at the time when services or goods are received rather than when cash is actually paid to vendors or employees.

City staff did not correctly accrue expenses that occurred prior to December 31, 2014 but were paid in January and February 2015 by reducing cash and the corresponding accounts payable balances. This method of accounting is not in accordance with Generally Accepted Accounting Principles (GAAP) and does not accurately reflect the status of cash and payables as of the fiscal year-end

#### *Cause of Condition*

In approximately fiscal year 2000, the City changed its basis of accounting and reporting from cash basis to Generally Accepted Accounting Principles (GAAP). However, City staff continued to utilize an open period which does not apply to

assets and liabilities reported on the financial statements. The City's practice of continuing to use an open period was not detected until our current audit.

### ***Effect of Condition***

Our audit identified the following significant errors in the original financial statements we received for audit. Although errors were identified, the City corrected all of the errors identified and received an unmodified opinion on its financial statements in whole.

#### **Significant Errors Identified:**

In the following funds, the City understated its cash and accounts payable accounts in their year-end financial statements by reducing the balances for payments, such as wages and other expenses, made after the year-end:

General Fund	\$424,072
Street Construction Fund	\$107,221
Water Fund	\$212,059

The City also understated cash and accounts payable for less significant amounts in the Capital Improvements, City Streets, Sewer, Storm Water and Equipment Rental Funds.

### ***Recommendation***

We recommend the City discontinue the practice of reducing cash and accounts payable for expenses paid after the end of the fiscal year to ensure its financial statements comply with Generally Accepted Accounting Principles (GAAP) reporting requirements.

### ***City's Response***

*The City of Mountlake Terrace disagrees and disputes this finding. The following outlines our practice since 1954.*

*The practice of crediting cash instead of accounts payable for year-end expenditures paid in the following year has been used annually at the City of Mountlake Terrace since its incorporation in 1954. In all of these years the cash balance has been reconciled and then reviewed and audited by the State Auditor's office without any issues.*

*The financial statements have been corrected for this misstatement, increasing cash and increasing accounts and wages payable for the same amount. There was no change to the Net Position of the City, as the net effect of the change was zero.*

*The amount of the change, when compared to total expenditures, is immaterial. However, due to the relatively small General Fund Balance at the end of the year, the change appears material to the General Fund's net position and balance sheet, even though the two accounts "wash" each other out and the net effect is zero. The change is immaterial when compared to the total Net Position of the City.*

*If the auditors had mentioned any concerns about this practice during any of the previous years' audits, this practice would have been changed. We relied on the clean audits we have received for many years that reviewed and approved of our year-end voucher process. The finance department designed the voucher process to credit cash instead of accounts payable. We had assumed this was an approved method of processing year-end payments based on previous clean audits of reviews of the cash reconciliation process.*

*On behalf of the City, I would request that the Finding be reduced to a Management Letter based on the fact we have relied on the State Auditor's Office audits for over 60 years, and this has not been noted until now. From this Audit forward we will comply fully with any recommendations.*

### ***Auditor's Remarks***

We acknowledge the City's response above and commend the City for its commitment to comply fully with audit recommendations. As noted in the enclosed report, our audits are not designed to identify all deficiencies in internal controls or errors presented in the financial statements submitted for audit. When deficiencies and errors are identified, auditing standards dictate the reporting of such matters. We reaffirm our finding.

### ***Applicable Laws and Regulations***

*Government Auditing Standards*, December 2011 Revision, paragraph 4.23, states:

**4.23** When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or



grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines material weaknesses and significant deficiencies in its *Codification of Statements on Auditing Standards*, Section 265 as follows:

**.07** For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

**Material weakness.** A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

**Significant deficiency.** A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

## STATUS OF PRIOR AUDIT FINDINGS

### City of Mountlake Terrace Snohomish County January 1, 2014 through December 31, 2014

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the City of Mountlake Terrace. The State Auditor's Office has reviewed the status as presented by the City.

<b>Audit Period:</b> January 1, 2013 through December 31, 2013	<b>Report Ref. No:</b> 1012464	<b>Finding Ref. No:</b> 1
<b>Finding Caption:</b> The City's internal controls over accounting and financial statement preparation are inadequate to ensure accurate reporting.		
<b>Background:</b> During our audit, we identified the following deficiencies in internal controls over financial reporting that, when taken together, represent a material weakness: <ul style="list-style-type: none"> <li>• City staff responsible for compiling the financial statements did not have sufficient technical knowledge and did not always utilize accounting standards and the <i>Budget Accounting and Reporting System</i> (BARS) manual when preparing the financial statements.</li> <li>• The City believed its utility infrastructure spreadsheet contained errors; however, it chose to continue to use the spreadsheet to account for capital assets without performing a full review of the spreadsheet's data and correcting the identified errors.</li> <li>• Although the City has procedures to perform a final review of the prepared financial statements prior to audit, the review was not effective in detecting material errors.</li> </ul>		
<b>Status of Corrective Action: (check one)</b> <div style="display: flex; justify-content: space-between;"> <div> <input type="checkbox"/> Fully Corrected         </div> <div> <input checked="" type="checkbox"/> Partially Corrected         </div> <div> <input type="checkbox"/> No Corrective Action Taken         </div> <div> <input type="checkbox"/> Finding is considered no longer valid         </div> </div>		
<b>Corrective Action Taken:</b> <ol style="list-style-type: none"> <li>1. City staff now utilizes both the GAAP Accounting standards and the BARS manual when new reporting issues or questions arise. For example, when it was unclear how to report unspent bond proceeds in the Net Investment in Capital Assets in the Government-Wide Financial statements, both the CAFR Consultant (Paul Glick) and the BARS Manual were used to determine how to report it. While Mr. Glick disagreed</li> </ol>		

*with BARS, ultimately the BARS manual interpretation was used (BARS Reporting Section 4.2.8.20 – 4.28.30).*

- 2. The City's utility infrastructure spreadsheet was entirely revamped, and beginning with the 2014 asset reporting, there are no errors in the calculation of depreciation.*
- 3. The City contracted with CAFR consultant Paul Glick to perform a final review of the prepared financial statements prior to audit. His credentials are as follows:*

*Mr. Glick is a nationally known instructor and consultant in government finance issues and provides training to state and local governments, certified public accounting firms and government finance organizations throughout the country. Since the GASB's issuance of GASB Statement No. 34, Mr. Glick has conducted training covering the new financial reporting model in more than 28 different states. In addition, GCG is under contract with numerous governments and other organizations to develop GASBS 34 financial statements and note disclosures, including CAFRs.*

*Mr. Glick has prepared financial statements and note disclosures consistent with GASB Statement No. 34 in over 50 governments nationwide. He has authored and published books on all aspects of the CAFR. In his career, Mr. Glick has reviewed over 5,000 CAFRs.*

*Material Errors from 2013 Corrected:*

- 1. The balances of SNOCOM's and the Alliance for Housing and Affordability's cash and investments are included in the 2014 Agency Fund statements.*
- 2. The \$2,472,435 of road infrastructure was expensed and restated in 2013, and in 2014 there were no overlays capitalized unless they fit the criteria identified by the Auditors.*
- 3. All road construction projects are capitalized upon substantial completion of the project, even if all invoices have not been paid or if there are outstanding claims from the contractor.*
- 4. The depreciation methodology used for the Sewer, Water and Storm Water Utility Funds has been changed and updated for accuracy.*
- 5. All unspent bond proceeds are included in Restricted Investments as Restricted Assets.*

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

**City of Mountlake Terrace  
Snohomish County  
January 1, 2014 through December 31, 2014**

Council  
City of Mountlake Terrace  
Mountlake Terrace, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mountlake Terrace, Snohomish County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 22, 2015. The prior year comparative information has been derived from the City's 2013 basic financial statements, on which we issued our report dated July 31, 2014.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a

combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Finding 2014-001 that we consider to be significant deficiencies.

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **CITY'S RESPONSE TO FINDINGS**

The City's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## **PURPOSE OF THIS REPORT**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However,

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

July 22, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133**

**City of Mountlake Terrace  
Snohomish County  
January 1, 2014 through December 31, 2014**

Council  
City of Mountlake Terrace  
Mountlake Terrace, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM**

We have audited the compliance of the City of Mountlake Terrace, Snohomish County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014. The City's major federal programs are identified in the accompanying Federal Summary.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program

occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

## **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal



control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **PURPOSE OF THIS REPORT**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

July 22, 2015

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **City of Mountlake Terrace Snohomish County January 1, 2014 through December 31, 2014**

Council  
City of Mountlake Terrace  
Mountlake Terrace, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mountlake Terrace, Snohomish County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 22.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mountlake Terrace, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Report on Summarized Comparative Information***

The financial statements include partial prior-year comparative information. Such information does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended December 31, 2013, from which such partial information was derived. We have previously audited the City's 2013 financial statements and we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information in our report dated July 31, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 24 through 37 and budgetary comparison information on pages 81 through 83 be presented to supplement the basic financial statements.

Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated July 22, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report

is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

July 22, 2015

## **FINANCIAL SECTION**

**City of Mountlake Terrace  
Snohomish County  
January 1, 2014 through December 31, 2014**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2014

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2014

Statement of Activities – 2014

Balance Sheet – Governmental Funds – 2014

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position – 2014

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – 2014

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities – 2014

Statement of Net Position – Proprietary Funds – 2014

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds – 2014

Statement of Cash Flows – Proprietary Funds – 2014

Statement of Fiduciary Net Position – Fiduciary Funds – 2014

Comparative Statement of Changes in Fiduciary Net Position – Fiduciary Funds – Firemen's Pension Trust Fund – 2014 and 2013

Notes to Financial Statements – 2014

### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund – 2014

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Street Construction Fund – 2014

Notes to the Required Supplementary Information – 2014

## **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Expenditures of Federal Awards – 2014

Notes to the Schedule of Expenditures of Federal Awards – 2014



Within this section of the City of Mountlake Terrace, Washington ("the City") comprehensive annual financial report (CAFR), the City's management is pleased to provide this narrative discussion and analysis of the financial activities of the City for the calendar year ended December 31, 2014. We discuss and analyze the City's financial performance within the context of the accompanying financial statements, schedules, and note disclosures following this section.

### ***Financial Highlights***

- The City's assets exceeded its liabilities by \$57,839,070 (net position) for the calendar year reported.
- Total net position are comprised of the following:
  - (1) Net investment in capital assets, of \$50,626,847 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
  - (2) Net position of \$2,893,490 is restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
  - (3) Unrestricted net position of \$4,318,733 represents the portion available to maintain the City's continuing obligations to citizens and creditors.
- The City's governmental funds reported a total ending fund balance of \$4,830,906 this year. This compares to the prior year ending fund balance of \$6,394,532, showing a decrease of \$1,563,626 or 24% during the current year.
- At the end of the current calendar year, unassigned fund balance for the General Fund was \$314,655, or just 2% of total General Fund expenditures.
- Overall, the City continues to maintain a strong financial position, in spite of unfavorable economic conditions and the deepening fiscal crises that local government such as ours will continue to face for the foreseeable future.

The above financial highlights are explained in more detail in the "financial analysis" section of this document.

### ***Overview of the Financial Statements***

This Management Discussion and Analysis (MD&A) document introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. The City also includes in this report additional information to supplement the basic financial statements.

### ***Government-wide Financial Statements***

The City's annual financial report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall financial status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in accrual accounting and the elimination or reclassification of activities between funds.

The first of these government-wide statements is the *Statement of Net Position*. This is the government-wide statement of position presenting information that includes all of the City's assets and liabilities, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating.

Evaluation of the overall health of the City would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of City infrastructure, in addition to the financial information provided in this report.

The second government-wide statement is the *Statement of Activities*. This statement reports how the City's net position changed during the current calendar year. All current year revenues and expenses are included regardless of when the City receives or pays cash.

An important purpose of the *Statement of Activities* is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.





Governmental activities included in this statement are general government, judicial, public safety, physical environment, transportation, economic environment and culture and recreation. Business-type activities include water, sewer and storm water. Both government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges.

### ***Fund Financial Statements***

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. For example, the Street Fund accounts for dollars associated with street maintenance. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. Individual fund data for nonmajor funds is provided in the form of combining statements in a later section of this report.

The City has three kinds of funds: Governmental, Proprietary and Fiduciary

- *Governmental funds* are reported in the fund financial statements and encompass the same functions reported as governmental activities in the government-wide financial statements such as police, fire and administration. However, the focus is very different with fund statements providing a distinctive view of the City's governmental funds. These statements report short-term calendar accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund operating statement provide a reconciliation to assist in understanding the differences between these two perspectives.

Individual fund information for nonmajor governmental funds is found in combining statements in a later section of this report.

- *Proprietary funds* are reported in the fund financial statements and generally report services for which the City charges customers a fee such as water, sewer and storm water. The City's proprietary funds are classified as enterprise funds and an internal service fund. These enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. The internal service fund is an equipment rental fund.
- *Fiduciary fund* type represents funds held in trust, and includes the firemen's pension trust fund and five agency funds.

### ***Notes to the Basic Financial Statements***

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

### ***Required Supplementary Information***

This section includes the budgetary schedules for the general fund and the street construction fund. We present other budgetary schedules in the supplementary information section.



### Supplementary Information

Combining and comparative individual statements and schedules for some major and nonmajor funds are presented as supplementary information in this report.

### Financial Analysis of the City as a Whole

The City's net position at calendar year-end was \$57,839,070. The following table provides a summary of the City's net position:

Summary of Net Position at December 31,

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets:						
Current assets	\$ 6,594,344	\$ 7,703,319	\$ 4,826,415	\$ 5,081,430	\$ 11,420,759	\$ 12,784,749
Capital assets	24,490,807	22,444,418	39,289,189	37,110,806	63,779,996	59,555,224
Noncurrent assets	709,911	694,178	7,423,977	3,088,115	8,133,888	3,782,293
Total assets	31,795,062	30,841,915	51,539,581	45,280,351	83,334,643	76,122,266
Liabilities:						
Current liabilities	1,553,358	902,520	812,318	650,581	2,365,676	1,553,101
Noncurrent liabilities	5,705,811	5,342,963	17,424,086	11,508,351	23,129,897	16,851,314
Total liabilities	7,259,169	6,245,483	18,236,404	12,158,932	25,495,573	18,404,415
Net position:						
Net investment in capital assets	23,230,807	20,932,445	27,396,040	27,433,466	50,626,847	48,365,911
Restricted	1,635,640	1,718,259	1,257,850	1,361,202	2,893,490	3,079,461
Unrestricted	(330,554)	1,945,728	4,649,287	4,326,751	4,318,733	6,272,479
Total net position	\$ 24,535,893	\$ 24,596,432	\$ 33,303,177	\$ 33,121,419	\$ 57,839,070	\$ 57,717,851

The City continues to maintain a high current ratio. The current ratio compares current assets to current liabilities and is an indication of the ability to pay current obligations. The current ratio for governmental activities is 4.6 to 1 as compared to 8.5 to 1 at December 31, 2013. The current ratio for the business-type activities at December 31, 2014 is 5.9 to 1 as compared to 11.3 to 1 at December 31, 2013. For the City overall, the current ratio is 5.1 to 1 as compared to 9.7 to 1 at December 31, 2013. These ratios are strong.

The City reported positive balances in net position for both governmental and business-type activities. Net position decreased \$60,539 for governmental activities and increased by \$181,758 for business-type activities. The City's overall financial position increased during calendar year 2014 by \$121,219.

Note that 94.7% of the governmental activities' net position is tied up in capital, such as building, infrastructure, vehicles and equipment. The City uses these capital assets to provide services to its citizens. However, with business-type activities, the City has spent 82.3% of its net position. Capital assets in the business-type activities also provide water, sewer and storm water services, but they also generate revenues for this fund. Overall, 87.5 of the City's total net position is included in capital assets.



The following table provides a summary of the City's changes in net position:

Summary of Changes in Net Position						
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program:						
Charges for services	\$ 5,352,823	\$ 5,103,876	\$ 8,634,235	\$ 8,186,936	\$ 13,987,058	\$ 13,290,812
Operating grants	951,241	675,733	-	37,697	951,241	713,430
Capital grants	1,779,112	1,230,122	82,871	146,774	1,861,983	1,376,896
General:						
Taxes	11,233,143	11,257,479	-	-	11,233,143	11,257,479
Other	311,223	80,524	186,895	(55,197)	498,118	25,327
Total revenues	19,627,542	18,347,734	8,904,001	8,316,210	28,531,543	26,663,944
Program Expenses:						
General government	2,186,641	2,291,102	-	-	2,186,641	2,291,102
Judicial	794,585	733,016	-	-	794,585	733,016
Public safety	9,168,655	8,406,444	-	-	9,168,655	8,406,444
Physical environment	806,910	685,870	-	-	806,910	685,870
Transportation	2,588,057	1,837,896	-	-	2,588,057	1,837,896
Economic environment	443,411	358,197	-	-	443,411	358,197
Culture and recreation	3,596,706	3,609,469	-	-	3,596,706	3,609,469
Interest	103,116	158,466	-	-	103,116	158,466
Sewer utility	-	-	3,256,624	3,221,214	3,256,624	3,221,214
Water utility	-	-	3,579,075	3,346,844	3,579,075	3,346,844
Storm water utility	-	-	1,886,544	1,763,567	1,886,544	1,763,567
Total expenses	19,688,081	18,080,460	8,722,243	8,331,625	28,410,324	26,412,085
Revenues over (under) expenses	(60,539)	267,274	181,758	(15,415)	121,219	251,859
Beginning net position	24,596,432	24,329,158	33,121,419	33,136,834	57,717,851	57,465,992
Ending net position	\$ 24,535,893	\$ 24,596,432	\$ 33,303,177	\$ 33,121,419	\$ 57,839,070	\$ 57,717,851

#### GOVERNMENTAL ACTIVITIES-REVENUES

The reasons for the changes in revenue are explained in more detail in governmental fund discussion later in this document. The total 2014 tax revenues were \$24,336 less than those reported in 2013. Real estate taxes were \$151,677 more than 2013. Sales taxes increased \$139,734 over 2013 or 6.9%. The economy is improving in the City; not only have we seen an increase in retail sales, but there has also been an increase in sales tax generated by new construction activities in the City.

Utility taxes decreased \$19,704 or just 6/10<sup>th</sup> of 1%. Excise taxes decreased \$228,817 or 20%. Real estate excise taxes increased just \$10,062.

In total, taxes make up 57.2% of the total revenues stream as compared to 61.4% in 2013. Property taxes make up 21.3% of revenues, as compared to 22% in 2013 and the utility taxes make up 15.4% of total revenues as compared to 16.6% in 2013.



The operating grants for general government included the following:

- Liquor Board Taxes from the State of Washington: \$217,458
- City Assistance from the State of Washington: \$123,413
- SNOCOM Fiscal Agent Services: \$16,830
- Washington State Department of Commerce Grant: \$29,490
- PUD Privilege Tax in lieu of Property Tax: \$91,605

The operating grants for public safety included:

- National Highway Traffic Safety Grants: \$11,725
- Bulletproof Vest Grant from Department of Justice: \$3,724
- HUD Low Income Housing Assistance for Section 8 Police Protection: \$11,067

The source of the operating grants of \$416,074 for transportation is the City's share of the State's Motor Vehicle Fuel Tax.

The capital grants for transportation included the following:

- Federal Highway Administration Department of Transportation Passed Through the WA State Department of Transportation for design of Lakeview Trail: \$120,149
- Federal Highway Administration Department of Transportation Passed Through the WA State Department of Transportation for construction of 228<sup>th</sup>/Cedar Way Overlay: \$444,227 Federal Highway Administration Department of Transportation Passed Through the WA State Department of Transportation for design of Main Street Reconstruction: \$411,319
- Federal Highway Administration Department of Transportation Passed Through the WA State Department of Transportation for Quick Response Safety Program: \$189,700
- Road Impact Fee from Solid Waste provider for future road repairs due to heavy trucks' damage: \$200,000
- City of Brier's share of 228<sup>th</sup> Overlay project: \$28,280

Public Safety capital grants of \$208,121 is from the Department of Homeland Security, passed through the Washington State Department of Commerce, for the construction of a new Emergency Operations Center.

The City reported an investment gain of \$127,407 as compared to a \$64,857 loss in 2013. This change between years relates to unrealized gains and losses. Note that program revenues cover 41% of governmental operating expenses. This means that the taxpayers and the City's other general governmental revenues cover the remaining 59% of the governmental expenses. As a result, the general economy and the success of City businesses have a major impact on the City's revenue streams.



### GOVERNMENTAL FUNCTIONAL EXPENSES

Of the City's governmental activities functions, 46.6% of the total costs relates to public safety in 2014 as compared to 46.4% in 2013. Culture and recreation expenses make up 18.3% as compared to 19.9% in 2013.

This table presents the cost of each of the City's programs, including the net costs (i.e., total cost less revenues generated by the activities). The net costs illustrate the financial burden that was placed on the City's taxpayers by each of these functions.

Governmental Activities					
	Total Cost of Services		Net Cost of Services		
	2014	2013	2014	2013	
General government	\$ 2,186,641	\$ 2,291,102	\$ (29,604)	\$ 123,643	
Judicial	794,585	733,016	429,918	332,633	
Public safety	9,168,655	8,406,444	8,755,821	7,928,754	
Physical environment	806,910	685,870	190,120	613,575	
Transportation	2,588,057	1,883,917	392,871	383,999	
Economic environment	443,411	358,197	232,120	131,752	
Culture and recreation	3,596,706	3,609,469	1,530,542	1,443,928	
Interest	103,116	158,466	103,116	158,466	
Total	<u>\$ 19,688,081</u>	<u>\$ 18,126,481</u>	<u>\$ 11,604,904</u>	<u>\$ 11,116,750</u>	

### BUSINESS-TYPE ACTIVITIES ANALYSIS

The City maintains three enterprise funds, each of these funds reported the following operating income or (loss) for the last two calendar years:

Fund	Operating Income (Loss)		%
	2014	2013	Change
Sewer Utility	\$ 486,414	\$ 295,216	65%
Water Utility	(191,843)	(43,569)	340%
Storm Water Utility	127,051	78,902	-61%
Total	<u>\$ 421,622</u>	<u>\$ 330,549</u>	<u>28%</u>



The following analysis is provided for the major enterprise funds.

**Sewer Utility Fund** – Revenues from charges for services increased \$198,818 or 8.3% in 2014 over that of 2013.

Operation and maintenance costs increased \$112,608 or 4.1% above the 2013 amount. Depreciation expense decreased \$84,288 or 20% in 2014. In this year, this fund did not transfer resources to other funds. At December 31, 2014, net position totals \$9,735,332. Of this amount, \$7,179,336 or 73.7% is tied up in capital assets.

**Water Utility Fund** – Revenues from charges for services increased \$85,294 or 2.8%.

Since operating expenses increased just \$33,040 or 1.2%, the 2014. Depreciation expense increased \$200,528. As a result, the operating loss increased from a loss of \$43,569 in 2013 to a \$191,843 operating loss in 2014. Interest expense decreased \$7,570 as debt principal is retired

In this year, this fund did not transfer resources to other funds. At December 31, 2014, the net position totaled \$16,920,402. Of this amount, \$14,618,553 or 86.6% is tied up in capital assets.

**Storm Water Utility Fund** - Charges for services increased \$143,187 or 8.6% over 2013. There was an increase in new developments in the City in 2014, which resulted in an increase of revenues from sewer connection fees, totaling \$164,064 for the year.

Operations and maintenance expenses increased just \$24,873 or 1.6% from the 2013 amount. Interest expense decreased \$13,111. As stated above, as debt principal is retired, interest costs go down.

At December 31, 2014, the net position total was \$6,898,720. Of this amount, \$5,535,151 or 80.2% is tied up in capital assets.

### ***Financial Analysis of the City's Funds***

#### ***Governmental Funds***

As discussed, governmental funds are reported in the fund statements with a focus on short-term inflow and outflow of spendable resources. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported ending fund balances of \$4,830,906 as compared to the amount of \$6,394,532 at December 31, 2013.

The restricted amount at December 31, 2014 was \$1,635,640, relating primarily to street maintenance (\$265,946), capital improvements (\$1,000,186), and \$369,508 for a variety of other restrictions.

Over \$1.4 million is committed, primarily for working capital and for revenue fluctuations. The street construction fund reports approximately \$1.2 million assigned to street construction.

The General Fund reports an unassigned amount of fund balance or \$314,655. This amount will be used for future one-time operating costs. The total ending fund balances of governmental funds show a decrease of approximately \$1.6 million compared to \$6,394,532 at December 31, 2013.

#### ***Major Governmental Funds***

**General Fund** - The General Fund is the City's primary operating fund and the largest source of day-to-day service delivery. The General Fund's fund balance decreased by \$886,001 or 33% in 2014. This decrease relates primarily to a \$152,000 transfer to the street construction fund and \$659,000 to service debt. In calendar year 2013, the fund balance increased \$504,873 or 23.2%. The amount of fund balance is determined by the amount of transfers to other funds.



Total revenues decreased \$182,603 or 1.2% in 2014. Total taxes increased just \$13,256 or 1/10<sup>th</sup> of 1%. Property taxes were up \$152,961 or 3.1% above the 2013 amount. Sales taxes increased \$141,734 or 7% mostly due to sales tax received from the construction costs of a new Assisted Living Facility, "Vineyard Park" in the City, and a new Brew Pub, Diamond Knot brought in new sales tax revenue as well.

Utility taxes decreased just \$19,704 or 6/10<sup>th</sup> of 1%. Excess taxes decreased \$228,817 or 20.1% because gambling tax revenues were substantially lower than the previous years.

In total, licenses and permits were down \$263,767 or 24.3% below the 2013 amount. These reductions relate to permits and fees, which were down \$196,450 or 31.5%.

Business licenses were unusually high in 2013 (\$148,767), as some of the 2014 business license fees were paid in 2013. Business license revenues in 2014 were \$100,991, more in line with previous years.

In total, intergovernmental revenue increased \$20,106 or 3.9% above the 2013 revenue amount.

Total charges for services increased \$77,760 or 2.6%. The recreation fees decreased \$99,377 from last year.

Other charges for services \$221,649 or 98.2% above the 2013 amount because the City renegotiated a new contract with its solid waste provider, which included an increase of \$119,369 over the 2013 level, and a small decrease in charges to the residents for garbage service. The newer higher fees to the City in future years will go to the City's Street Construction and Street Operating funds to help pay for the wear and tear on the City's streets from the Solid Waste provider's large garbage trucks. In addition, passport fee revenues were 149% or \$26,738 higher in 2014 than in 2013 due to the discontinuance of processing passport at neighboring entities.

Fines and forfeitures decreased \$35,716 below the 2013 amount. Investment earnings did increase from a 2013 loss of (\$16,819) to a \$35,398 gain as discussed above. Most other revenues were consistent with calendar year 2013.

In 2014, total expenditures increased \$1,111,720 or 7.7% above the 2013 amount. The general government expenditures increased \$323,506 or 19.6%. Within the general government function, the following increases from the prior year occurred:

- Legislative/Executive - \$89,030 or 15% - increased attorney's fees related to litigation by a previous employee who was terminated and other increased legal fees incurred because of an increase of public disclosure requests. A judge upheld the City's termination of the previous employee and no further expenditures will be incurred on this case.
- Property management - \$250,918 or 92.1% - As discussed in the budget analysis section below, the reduction of expenditures recognized with the property management budget from utilities in 2014 was \$108,688 and an additional \$428,628 from the Recreation Fund that was treated as a reduction of expenditures in the Property Management department, and an expenditure in the Recreation Fund expenditures for property management services (total \$537,316). There was also a \$100,377 savings in the budget for the Interim Hall City rent due to a renegotiation of the lease. Overall, property management costs in 2014 exceeded the 2013 expenditures because in 2013 the budget and expenditures for the Interim City Hall rent were included in the CIP Fund. The total rent paid for the Interim City Hall in 2014 was \$342,528. A substantial savings from the amount paid in 2013 (\$470,317) that was included in the CIP Fund.

Judicial costs increased \$59,394 or 8.1%.

Fire expenditures increased \$614,464 or 24% because the City contracts with Fire District One for its fire services. The amount paid to Fire District One had been flat from 2011 through 2014. However, in 2014 Fire District One settled a labor contract with its firefighters, which included an increase to their wages retroactive to 2011.

While Fire District One absorbed the increase for 2011 through 2012, it passed on the increase to the City for the years 2013 and 2014. The charge for these retroactive wages was \$631,323 to the City. While Fire District One is allowing the City to pay this retroactive bill over 2 years, the entire amount was recognized in 2014.





The costs for community development are \$154,568 or 15% more than the 2013 amount. This increase is primarily due to an increase in professional services of \$101,930 over the 2013 amount. The City hired a land use attorney and a project coordinator to assist with the development of the Gateway site. The City did not have the staff resources to provide the level of service that the Developer of this project needed, so professional experts were engaged to work with the developer.

Finally, the culture and recreation costs were \$113,699 or 3.4% less than the prior year.

**Street Construction Fund** – During 2014, this fund recognized \$2,256,349 in revenues, primarily intergovernmental revenue. Intergovernmental revenue was \$295,834 or 24.4% above the 2013 amount. This fund expended \$3.2 million for construction projects or approximately \$1.5 million more than in 2013.

This fund reported ending fund balance of \$1,425,196 or a decrease of \$575,110 or 28.8% below the December 31, 2013 amount.

**Capital Improvements Fund** – In 2014, the City recognized \$559,830 in various revenue sources. This fund expended \$707,362 during 2014. The general fund transferred in \$152,000 to this fund to finance capital improvement expenditures. At December 31, 2014, the City reported a fund balance of \$989,882 as compared to an \$815,414 balance at December 31, 2013.

**Budgetary Highlights – General Fund**

The General Fund's revenue budget was amended upward in calendar year 2014 by just \$164,850 or less than 1%. This adjustment primarily was to increase the tax revenue budget.

In total, tax revenue was \$342,036 below the budget. The sales tax revenue was the only revenue source that was above the final budget, or \$155,592 or 7.7% above the final budget.

License and permits were \$137,661 below the final budget. Permits and fees were below budget as many anticipated new projects were deferred until 2015. We expect development services fees to back in line with budget in 2015.

The local government assistance \$41,207 or 50.1% over the budget because the State of Washington increased its City assistance allocation, which was higher than anticipated when the 2014 budget was developed.

Similar to last year, no budget was adopted for interfund charges for services due to the change in accounting for reimbursements.

Planning fees were \$68,709 or 24.5% below the final budget because many anticipated new projects were deferred until 2015. We expect development services fees to be consistent with 2015 budget, particularly when the Gateway development begins.

Recreation fees were below the budget by \$376,626 because the competition of a neighboring City that built a brand new Aquatic Center in 2013. When the 2014 budget was developed, it was assumed that higher revenues would continue from the 2011 levels, when the neighboring city's Aquatic facility was closed and being rebuilt. The 2015-2016 budget includes a much more realistic revenue budget. However, while revenues were below budget, so were operating expenditures, coming in at 87% of the budget amount. The year ended with a cost recovery ratio of 80%.

In total, the City realized 86.7% of estimated revenues.

With regard to General Fund expenditure budget, it was amended upward \$567,048 or 3.3%.





The total general government budget was under spent by \$2,195,189 or 58.2%. The City no longer reports interfund charges. In 2013, the State of Washington Auditor's Office required that all interfund services be reclassified from Interfund Service revenues to a reduction of general government expenses. The Utilities and Fleet Management Funds' share of general government services totaled \$1,659,278 in 2014; in order to not duplicate the cost of City services, these reimbursements were treated as expenditure reductions in the General Fund. However, these expenditures were still included in the 2014 Adopted Budget. Beginning with the 2015-2016 budget, the City changed the way it budgets for these services.

In total, the public safety budget was overspent by \$124,109 or 1.6%. The fire department was over spent by \$501,466 or 18.8%.

Finally, the culture and recreation was under spent by \$461,725 or 12.5% because of lower costs at the City's aquatic center.

### ***Capital Assets and Debt Administration***

#### ***Capital Assets***

The City's net investment in capital assets for governmental and business-type activities as of December 31, 2014 was a 9.1% increase for governmental activities and a 5.9% increase for business-type activities. The overall increase was 7.1% for the City as a whole. See Note 3-D for additional information about changes in capital assets during the calendar year and outstanding at the end of the year.

The following table provides a summary of capital asset activity:

	<b>Governmental Activities</b>		<b>Business Activities</b>		<b>Total</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Nondepreciable assets:						
Land	\$ 1,538,605	\$ 1,538,605	\$ 2,128,469	\$ 2,128,469	\$ 3,667,074	\$ 3,667,074
Construction in progress	2,805,166	4,611,374	393,307	6,617,767	3,198,473	11,229,141
Total nondepreciable assets	4,343,771	6,149,979	2,521,776	8,746,236	6,865,547	14,896,214
Depreciable assets:						
Buildings	13,197,507	13,182,210	2,744,174	1,745,808	15,941,681	14,928,018
Improvements	1,545,086	1,366,690	21,168	21,168	1,566,254	1,387,858
Machinery and equipment	5,873,855	5,821,651	607,379	621,470	6,481,234	6,443,121
Infrastructure	27,241,215	22,742,843	48,376,300	40,143,257	75,617,515	62,886,100
Intangibles	-	-	3,011,158	2,726,106	3,011,158	2,726,106
Total depreciable assets	47,857,662	43,113,394	54,760,179	45,257,809	102,617,842	88,371,203
Less accumulated depreciation	27,710,626	26,818,955	17,992,766	16,893,238	45,703,392	43,712,193
Book value - depreciable assets	20,147,036	16,294,439	36,767,413	28,364,571	56,914,450	44,659,010
Percentage depreciated	58%	62%	33%	37%	45%	49%
Book value - all assets	\$ 24,490,807	\$ 22,444,418	\$ 39,289,189	\$ 37,110,807	\$ 63,779,997	\$ 59,555,224

At December 31, 2014, the depreciable capital assets for governmental activities were 58% depreciated. This compares favorably with the December 31, 2013 percentage of 62%.



At December 31, 2014, the major projects included in the governmental activities construction in progress include:

- Master Campus Plan/CFAT Detail: \$381,710
- Town Center: \$444,893
- Electrical Undergrounding – Main Street: \$119,225
- Main Street Construction and Design: \$389,620
- Lakeview Trail: \$862,988
- Street Lights for Town Center/Arbor Village: \$110,639

Governmental activities – other improvements include an addition of \$178,396 for emergency operation center TI renovation. An equipment increase relates primarily to the purchase of a 2015 Vector for \$457,005.

Governmental activities infrastructure increased approximately \$4.5 million consisting primarily of:

- 228<sup>th</sup>/Cedar Way Street Overlay: \$1,355,715
- 230<sup>th</sup> Reconstruction project: \$1,309,494
- 2013 City-wide Safety Improvements: \$287,206
- 222<sup>nd</sup> Sidewalk Project: \$517,589
- Safe Routes to School (54<sup>th</sup>/220<sup>th</sup> – 227rd ): \$383,728
- Arbor Village: \$258,339

With the City's business-type activities, 33% of the asset values were depreciated at December 31, 2014, as compared to the same 37% at December 31, 2013. Again, a positive indicator.

At December 31, 2014, the major projects included in the business-type activities construction in progress include:

- North Side Water Main Construction: \$162,715

During 2014, the City capitalized a Decant Station at a cost of \$998,366.

Business-type activities infrastructure increased approximately \$8.2 million consisting primarily of:

- Ballinger Lakes GC Sewer Replacement: \$589,916
- 228<sup>th</sup>/Cedar Way Water Main: \$272,795
- 230<sup>th</sup> Water Main: \$235,730
- 222<sup>nd</sup> Street SW – Sidewalk and Water Main: \$441,785
- 228<sup>th</sup> Street Water Main reconstruction: \$1,207,015
- AMR Project Water Meters: \$1,272,609
- 230<sup>th</sup> at Hall Creek Culvert removal: \$610,791
- McAleer Creek Culvert: \$1,092,103
- Town Center Regional Storm Water Facility: \$1,389,994



### Long-Term Liabilities

The following table reports outstanding long-term liabilities at both December 31, 2014 and 2013.

#### Outstanding Borrowings

	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
General obligation bonds	\$ 2,615,000	\$ 3,060,000	\$ -	\$ -	\$ 2,615,000	\$ 3,060,000
Local loan	-	120,275	-	-	-	120,275
Revenue bonds - net	-	-	17,337,881	11,087,678	17,337,881	11,087,678
Public works trust fund loan	120,000	11,698	775,268	874,252	895,268	885,950
OPEB	2,607,055	2,079,349	-	-	2,607,055	2,079,349
Compensated absences	822,811	796,145	99,902	119,382	922,713	915,527
Total	<u>\$ 6,164,866</u>	<u>\$ 6,067,467</u>	<u>\$ 18,213,051</u>	<u>\$ 12,081,312</u>	<u>\$ 24,377,917</u>	<u>\$ 18,148,779</u>

On December 30, 2014, the City issued \$6,220,000 of revenue bonds with a premium of \$511,296 at coupon interest rates ranging from 2% to 4%, with a true interest cost of 3.077%. The bonds mature on December 1, 2034. The purpose of this issue is for utility capital improvements, including water main improvements and storm lines.

In a report issued on December 3, 2014, Standard & Poor's (S&P) assigned its 'AA' Rating to the city's 2014 series water and sewer revenue bonds that Council authorized on December 1, 2014. The only ratings higher are "AAA" and "AA+", which few municipalities have achieved. S & P also affirmed its 'AA' long-term rating on the City's previously issued series 2012 and 2010 water and sewer bonds.

S&P assigned the city an 'AA' rating with a stable outlook. It also notes the city has good financial policies and practices, including formal quarterly financial performance reviews and the maintenance of a six-year forecasting model. Additional key statements from the report:

- Service area economy with good to strong income levels that participates in the broad and diverse Seattle metropolitan area economy.
- Stable, primarily residential, and very diverse customer base.
- Ample water supply with sewage treatment capacity, with a long-term wholesale contract in place for water service.
- Affordable service rates coupled with a demonstrated willingness and ability to adjust rates to match operating needs.
- Historically strong liquidity position and senior-lien debt service coverage (DSC) before transfers for city utility taxes.
- The stable outlook reflects our view of the utility's robust and institutionalized array of management practices, which provide a framework for the utility to identify and respond to unanticipated financial challenges.

The 'AA' Bond Rating, which is an extraordinary achievement for our City, will translate into lower financing costs by attracting a broader range of investors. This rating is also a positive reflection of the City's effectiveness in managing its financial resources during one of the most difficult economic times in several generations.

On February 7, 2012, Moody's Investors Service affirmed the A1 rating on the City's \$2 million of outstanding Limited Tax



General Obligation debt. The Moody's rating affirmation "reflects the City's high overall available fund balances, low debt burden, and continued strong management through the regional economic downturn. Despite a large drop in assessed value (AV), the City benefits from a city council that has shown a willingness to add revenue streams, as well as Washington law that allows for 1% annual increase to property tax levy." See Note 3F for additional information regarding changes in the City's long-term liabilities.

#### ***Economic Conditions Affecting the City***

2014 was another successful year for the City - a year of maintaining strong finances, delivering a high standard of services to the community, and seeing the realization of the City Council's vision for a revitalized Town Center.

The City's effectiveness in managing its financial resources while focusing on City Council goals with the community has come about by adhering to the Six-Year Financial Forecast. This was done by pursuing grant opportunities, continuing to partner with the public and private sectors, continuing communication with State and Federal elected officials to ensure they are aware of local governments' needs, and not spending one-time funds on ongoing commitments.

Today we are continuing to build a community that is beautiful, accessible and inviting, and which sustains and improves the quality of life and supports economic development.

***Financial Stability*** - Throughout the recession, the City Council was diligent about ensuring that Mountlake Terrace maintains its financial health. This continues to be a focus of the Council because strong, healthy finances help ensure the City is able to provide high quality services both now and into the future.

The Council has maintained the City's finances by adhering to the Six-Year Financial Forecast that ensures we stay within our means while focusing on the community's needs. This involves quarterly reviews of the City's finances, including a comparison of prior revenues and expenditures by fund and department.

Although the economy is rebounding we must continue providing general government services with the revenue that is available today, rather than overspending with the assumption that the economy will continue to improve.

To expand available revenues, the City continues to proactively pursue and obtain state and federal funding to upgrade our aging infrastructure. This includes streets, parks, sidewalks, facilities, utilities and open space areas. In 2014, for example, the City used grants to build a new state of the art Emergency Operating Center, put in new playground equipment in our city parks, begin the design of Lakeview Trail and continue the design of Main Street in the Town Center. The City also obtained a grant in 2014 to purchase three acres of forested land adjacent to Terrace Creek Park.

***Service to the Community*** - The result of the City Council's adherence to the Financial Forecast is that the City has been able to maintain - and in some areas increase - the delivery of municipal services provided to the community.

The community's appreciation for this level of service is seen in the high marks reported in the 2013 Community Satisfaction Survey, which showed that life is good in Mountlake Terrace. Most survey respondents felt positively about the overall quality of life in Mountlake Terrace. They also valued their neighborhoods; the city as a place to live, raise children and retire; and its overall appearance. The vast majority of residents would recommend living in the community and planned on staying.

Residents also identified through the survey that the economy was one of the facets most important to their overall quality of life, conveying a concern for the overall economic health of the community through strong support for funding programs related to economic development and business recruitment.

The survey also showed that residents experience good mobility and that they support transportation improvements, which is a sign that the City Council continues to head in the right direction by investing in roads, sidewalks, trails and bike lanes. A majority of respondents found walking and biking through the community to be good and about half had reduced single-occupancy vehicle trips through carpooling, walking or biking. The vast majority of respondents felt it was essential or very important for the City to address street maintenance and improvement projects. Furthermore, most residents felt that increased taxes or fees were definitely warranted to fund new or expanded sidewalks programs.



***Economic Development*** - Since 2007, a key goal of the City Council has been a focus on economic development as a tool to increase the financial resources available to the community to ensure quality delivery of services.

At the same time, new development generates additional property and sales taxes, which in turn reduces what residents have to pay for public services.

The current level of development activity in Mountlake Terrace reflects very positively upon our community. The City Council's actions in 2007 are bearing fruit in terms of numerous development projects completed or underway in the Town Center, adding over 245 housing units and more than 18,000 square feet of commercial space in this redeveloping neighborhood. Throughout the City, the value of new construction in 2014 increased by almost \$21 million.

With the ongoing focus on financial health, quality service delivery and economic development, Mountlake Terrace is poised to be the future of the Puget Sound area.

***Contacting the City's Financial Management***

We designed this financial report to provide a general overview of the City's finances, comply with finance-related laws and regulations, and demonstrate the City's commitment to public accountability. If you have questions about this report or would like to request additional information, contact the City Manager, Arlene Fisher, at (425) 776-1161.

City of Mountlake Terrace, Washington  
Statement of Net Position  
December 31, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents (Note 3-A)	\$ 2,128,426	\$ 2,597,053	\$ 4,725,479
Investments (Note 3-A)	2,518,967	1,218,588	3,737,555
Receivables:			
Accounts	181,604	1,234,451	1,416,055
Taxes	1,296,259	-	1,296,259
Intergovernmental	194,146	27,600	221,746
Internal	251,277	(251,277)	-
Inventory	23,665	-	23,665
<b>Total Current Assets</b>	<b>6,594,344</b>	<b>4,826,415</b>	<b>11,420,759</b>
<b>Noncurrent Assets</b>			
Investment in joint venture	709,911	-	709,911
Restricted assets: cash and cash equivalents	-	1,257,850	1,257,850
Restricted assets: investments	-	6,166,127	6,166,127
Capital assets (Note 3-D)			
Nondepreciable	4,343,771	2,521,777	6,865,548
Depreciable, net	20,147,036	36,767,412	56,914,448
<b>Total Noncurrent Assets</b>	<b>25,200,718</b>	<b>46,713,166</b>	<b>71,913,884</b>
<b>Total Assets</b>	<b>31,795,062</b>	<b>51,539,581</b>	<b>83,334,643</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable	396,896	-	396,896
Wages payable	138,611	-	138,611
Intergovernmental payable	262,055	23,354	285,409
Deposits payable	41,234	-	41,234
Compensated absences payable	164,562	19,980	184,542
Unearned revenue	-	-	-
Public trust fund loan payable	-	98,984	98,984
Limited tax general obligation bonds payable	225,000	-	225,000
General obligation refunding bonds payable	295,000	-	295,000
Revenue bonds payable	-	670,000	670,000
Public works board loan payable	30,000	-	30,000
<b>Total Current Liabilities</b>	<b>1,553,358</b>	<b>812,318</b>	<b>2,365,676</b>
<b>Long-Term Liabilities (net of current portion): (Note 3-F)</b>			
Compensated absences payable	658,249	79,921	738,170
Intergovernmental payable	255,507	-	255,507
Other postemployment benefits payable (Note 3-J)	2,607,055	-	2,607,055
Public trust fund loan payable	-	676,284	676,284
Limited tax general obligation bonds payable	1,250,000	-	1,250,000
General obligation refunding bonds payable	845,000	-	845,000
Revenue bonds payable	-	16,667,881	16,667,881
Public works board loan payable	90,000	-	90,000
<b>Total Long-term Liabilities</b>	<b>5,705,811</b>	<b>17,424,086</b>	<b>23,129,897</b>
<b>Total Liabilities</b>	<b>7,259,169</b>	<b>18,236,404</b>	<b>25,495,573</b>
<b>Net Position</b>			
Net investment in capital assets (Note 3-J)	23,230,807	27,396,040	50,626,847
Restricted for:			
Capital projects	1,260,306	-	1,260,306
Debt service	41,584	1,257,850	1,299,434
Tourism	27,069	-	27,069
Housing inspections	275,754	-	275,754
Street maintenance	30,927	-	30,927
Unrestricted	(330,554)	4,649,287	4,318,733
<b>Total Net Position</b>	<b>\$ 24,535,893</b>	<b>\$ 33,303,177</b>	<b>\$ 57,839,070</b>

See accompanying notes to the basic financial statements

City of Mountlake Terrace, Washington  
Statement of Activities  
For the Year Ended December 31, 2014

Function/Program	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Primary Government		
				Capital Grants and Contributions	Governmental Activities	Business-Type Activities
<b>Primary Government</b>						
<b>Governmental Activities</b>						
General government	\$ 2,186,641	\$ 1,681,077	\$ 535,167	\$ -	\$ 29,604	\$ 29,604
Judicial	794,585	364,667	-	-	(429,918)	(429,918)
Public safety	9,168,655	412,834	-	208,121	(8,547,700)	(8,547,700)
Physical environment	806,910	616,790	-	-	(190,120)	(190,120)
Transportation	2,588,057	-	416,074	1,393,675	(778,308)	(778,308)
Economic environment	443,411	211,291	-	-	(232,120)	(232,120)
Culture and recreation	3,596,706	2,066,164	-	177,316	(1,353,226)	(1,353,226)
Interest	103,116	-	-	-	(103,116)	(103,116)
<b>Total Governmental Activities</b>	<b>19,688,080</b>	<b>5,352,823</b>	<b>951,241</b>	<b>1,779,112</b>	<b>(11,604,904)</b>	<b>(11,604,904)</b>
<b>Business-Type Activities:</b>						
Sewer Utility	3,256,624	3,689,063	-	10,646	-	443,085
Water Utility	3,579,075	3,177,421	-	39,902	-	(361,752)
Storm Water Utility	1,886,544	1,767,751	-	32,323	-	(86,470)
<b>Total Business-Type Activities</b>	<b>8,722,242</b>	<b>8,634,235</b>	<b>-</b>	<b>82,871</b>	<b>-</b>	<b>(5,136)</b>
<b>Total - Primary Government</b>	<b>\$ 28,410,322</b>	<b>\$ 13,987,058</b>	<b>\$ 951,241</b>	<b>\$ 1,861,983</b>	<b>(11,604,904)</b>	<b>(11,610,040)</b>
<b>General Revenues</b>						
Property taxes levied for:						
					4,187,338	4,187,338
General government purposes					2,155,592	2,155,592
Sales taxes					3,020,978	3,020,978
Utility taxes					909,978	909,978
Excise taxes					508,170	508,170
Real estate excise taxes					451,087	451,087
Other taxes					55,709	55,709
Gain on disposition of capital assets					127,407	283,207
Investment earnings					128,106	159,200
Miscellaneous						
<b>Total General Revenues</b>					<b>11,544,365</b>	<b>11,731,259</b>
<b>Change in Net Position</b>					<b>(60,539)</b>	<b>121,219</b>
<b>Net Position Beginning of Year</b>					<b>24,596,432</b>	<b>57,717,851</b>
<b>Net Position End of Year</b>					<b>\$ 24,535,893</b>	<b>\$ 33,303,177</b>
						<b>\$ 57,839,070</b>

See accompanying notes to the basic financial statements

**City of Mountlake Terrace, Washington**  
**Balance Sheet**  
**Governmental Funds**  
**December 31, 2014**

	<b>General</b>	<b>Street Construction</b>	<b>Capital Improvements</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>					
Cash and cash equivalents	\$ 731,737	\$ 547,788	\$ 403,960	\$ 217,722	\$ 1,901,207
Investments	488,585	797,410	588,039	311,282	2,185,316
Receivables:					
Accounts	174,268	-	4,075	3,261	181,604
Taxes	1,198,571	8,986	-	88,702	1,296,259
Intergovernmental	88,466	71,012	32,385	-	191,863
Inventory	23,665	-	-	-	23,665
<b>Total Assets</b>	<b>\$ 2,705,292</b>	<b>\$ 1,425,196</b>	<b>\$ 1,028,459</b>	<b>\$ 620,967</b>	<b>\$ 5,779,914</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 355,948	\$ -	\$ 38,248	\$ 2,700	\$ 396,896
Wages payable	138,611	-	-	-	138,611
Intergovernmental payable	261,176	-	329	23	261,528
Deposits payable	41,234	-	-	-	41,234
<b>Total Liabilities</b>	<b>796,969</b>	<b>-</b>	<b>38,577</b>	<b>2,723</b>	<b>838,269</b>
<b>Deferred Inflows of Resources - Property Taxes</b>	<b>110,605</b>	<b>-</b>	<b>-</b>	<b>134</b>	<b>110,739</b>
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>907,574</b>	<b>-</b>	<b>38,577</b>	<b>2,857</b>	<b>949,008</b>
<b>Fund Balances</b>					
Nonspendable	23,665	-	-	-	23,665
Restricted	-	235,019	782,511	618,110	1,635,640
Committed	1,428,176	-	-	-	1,428,176
Assigned	31,222	1,190,177	207,371	-	1,428,770
Unassigned	314,655	-	-	-	314,655
<b>Total Fund Balances</b>	<b>1,797,718</b>	<b>1,425,196</b>	<b>989,882</b>	<b>618,110</b>	<b>4,830,906</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 2,705,292</b>	<b>\$ 1,425,196</b>	<b>\$ 1,028,459</b>	<b>\$ 620,967</b>	<b>\$ 5,779,914</b>

See accompanying notes to the basic financial statements



**City of Mountlake Terrace, Washington**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Position**  
**December 31, 2014**

<b>Total Governmental Fund Balances</b>	\$	4,830,906
<b>Amounts reported for governmental activities in the statement of net position are different because:</b>		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds (exclusive of internal service funds' capital assets).		
Cost of capital assets	\$	47,807,629
Less accumulated depreciation	<u>(25,934,235)</u>	21,873,394
The investment in joint ventures is not reported at the fund financial reporting level but is reported on the government-wide statement of net position.		709,911
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds - property taxes.		110,739
The internal service fund is used by management to charge the costs of the equipment rental to individual funds. The assets and liabilities of the internal service funds are included in governmental activities column on the government-wide statement of net position.		3,164,572
The internal service fund chargeback to enterprise funds is not reported in the governmental funds, but is reported on the government-wide financial statements.		251,277
Liabilities not due and payable in the current period and therefore are not reported in the governmental fund balance sheets but are reported on the government-wide statement of net position.		
Limited tax general obligation bonds payable	\$	(1,475,000)
General obligation refunding bonds payable	(1,140,000)	
Local loans payable		
Public works board loan payable	(120,000)	
Other postemployment benefits payable	(2,607,055)	
Intergovernmental payable	(255,507)	
Compensated absences payable (excludes internal service fund)	<u>(807,344)</u>	<u>(6,404,906)</u>
<b>Net Position Of Governmental Activities</b>	<u>\$</u>	<u>24,535,893</u>

See accompanying notes to the basic financial statements

**City of Mountlake Terrace, Washington**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended December 31, 2014**

	<b>General</b>	<b>Street Construction</b>	<b>Capital Improvements</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>					
Taxes	\$ 10,391,014	\$ -	\$ -	\$ 842,129	\$ 11,233,143
Intergovernmental	535,167	1,506,015	385,437	303,734	2,730,353
Licenses and permits	821,509	-	-	-	821,509
Charges for services	3,101,869	616,739	152,195	51	3,870,854
Fines and forfeitures	364,667	-	-	-	364,667
Investment earnings	35,398	51,350	22,198	15,039	123,985
Rent and leases	278,341	-	-	-	278,341
Miscellaneous	63,135	82,245	-	177	145,557
<b>Total Revenues</b>	<b>15,591,100</b>	<b>2,256,349</b>	<b>559,830</b>	<b>1,161,130</b>	<b>19,568,409</b>
<b>Expenditures</b>					
<b>Current:</b>					
General government	1,891,167	-	177,568	-	2,068,735
Judicial	794,585	-	-	-	794,585
Public safety	8,169,099	-	73,276	-	8,242,375
Physical environment	795,137	-	-	-	795,137
Economic environment	458,772	-	-	4,473	463,245
Culture and recreation	3,242,614	-	93,858	21,420	3,357,892
Transportation	-	250,996	-	1,227,557	1,478,553
<b>Capital Outlay</b>	<b>-</b>	<b>3,008,765</b>	<b>362,660</b>	<b>-</b>	<b>3,371,425</b>
<b>Debt Service:</b>					
Principal retirement	-	-	-	565,274	565,274
Interest and fiscal charges	-	-	-	103,116	103,116
<b>Total Expenditures</b>	<b>15,351,374</b>	<b>3,259,761</b>	<b>707,362</b>	<b>1,921,840</b>	<b>21,240,337</b>
<b>(Deficiency) of Revenues (Under) Expenditures</b>	<b>239,726</b>	<b>(1,003,412)</b>	<b>(147,532)</b>	<b>(760,710)</b>	<b>(1,671,928)</b>
<b>Other Financing Sources (Uses)</b>					
Inception of intergovernmental loan	-	108,302	-	-	108,302
Transfers in	-	320,000	322,000	973,727	1,615,727
Transfers out	(1,125,727)	-	-	(490,000)	(1,615,727)
<b>Total Other Financing Sources (Uses)</b>	<b>(1,125,727)</b>	<b>428,302</b>	<b>322,000</b>	<b>483,727</b>	<b>108,302</b>
<b>Net Change in Fund Balances</b>	<b>(886,001)</b>	<b>(575,110)</b>	<b>174,468</b>	<b>(276,983)</b>	<b>(1,563,626)</b>
<b>Fund Balances Beginning of Year</b>	<b>2,683,719</b>	<b>2,000,306</b>	<b>815,414</b>	<b>895,093</b>	<b>6,394,532</b>
<b>Fund Balances End of Year</b>	<b>\$ 1,797,718</b>	<b>\$ 1,425,196</b>	<b>\$ 989,882</b>	<b>\$ 618,110</b>	<b>\$ 4,830,906</b>

See accompanying notes to the basic financial statements

**City of Mountlake Terrace, Washington**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes**  
**in Fund Balances of Governmental Funds to the Statement of Activities**  
**For the Year Ended December 31, 2014**

<b>Net Changes In Fund Balances - Total Governmental Funds</b>		\$ (1,563,626)
<b>Amounts reported for governmental activities in the statement of activities are different because:</b>		
Governmental funds report capital outlays as expenditures on the governmental fund type operating statement. However, in the government-wide statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capitalized capital outlay exceeded depreciation expense in the current period.		
Depreciation expense	\$ (1,103,908)	
Capital outlay	3,371,425	
Less amount of capital outlay not capitalized	<u>(407,017)</u>	1,860,500
The book value of capital assets sold are reported on the government-wide statement of activities but not reported in the governmental fund's operating statement.		(2,923)
Revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes:		
Deferred @ 12/31/14	\$ 110,739	
Deferred @ 12/31/13	<u>(107,317)</u>	3,422
Governmental funds do not report the change in the investment in the joint venture, but the change is reported on the government-wide statement of activity.		15,733
Elimination of transfers between governmental funds:		
Transfers in	\$ (1,615,727)	
Transfers out	<u>1,615,727</u>	-
The internal service fund is used by management to charge the costs of maintenance services to individual funds are not reported in the government-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated.		(95,581)
The internal service fund chargeback to enterprise funds is not reported in the governmental funds, but is reported on the government-wide financial statements.		75,095
The issuance of long-term debt is reported as an other financing source at the fund financial reporting level but reclassified as a liability at the government-wide financial reporting level.		(108,302)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the government-wide statement of net position.		565,275
Other postemployment expenses are reported in the government-wide statement of activities, but do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(527,706)
The expense for the long-term portion of intergovernmental is not reported as an expenditure at the fund financial reporting level but is reported as an expense on the government-wide statement of activities.		(255,507)
Compensated absences are reported in the government-wide statement of activities, but do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Liability @ 12/31/14	\$ (807,344)	
Liability @ 12/31/13	<u>780,425</u>	(26,919)
<b>Change In Net Position of Governmental Activities</b>		<u><u>\$ (60,539)</u></u>
See accompanying notes to the basic financial statements		

City of Mountlake Terrace, Washington  
Statement of Net Position  
Proprietary Funds  
December 31, 2014

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Sewer Utility	Water Utility	Storm Water Utility	Total	
<b>Assets</b>					
<b>Current Assets:</b>					
Cash and cash equivalents	\$ 760,717	\$ 1,356,771	\$ 479,565	\$ 2,597,053	\$ 227,219
Investments	1,218,588	-	-	1,218,588	333,651
Receivables:					
Accounts	527,671	387,946	318,834	1,234,451	-
Intergovernmental	-	-	27,600	27,600	2,283
<b>Total Current Assets</b>	<b>2,506,976</b>	<b>1,744,717</b>	<b>825,999</b>	<b>5,077,692</b>	<b>563,153</b>
<b>Noncurrent Assets:</b>					
Restricted assets: cash and cash equivalents	76,404	585,062	596,384	1,257,850	-
Capital assets:					
Nondepreciable	603,251	1,146,071	772,455	2,521,777	200,989
Depreciable, net	7,498,049	18,529,376	10,739,987	36,767,412	2,416,424
<b>Total Noncurrent Assets</b>	<b>8,177,704</b>	<b>24,139,180</b>	<b>14,396,282</b>	<b>46,713,166</b>	<b>2,617,413</b>
<b>Total Assets</b>	<b>10,684,680</b>	<b>25,883,897</b>	<b>15,222,281</b>	<b>51,790,858</b>	<b>3,180,566</b>
<b>Liabilities</b>					
<b>Current Liabilities:</b>					
Intergovernmental payable	6,782	13,940	2,632	23,354	527
Public works trust fund loan payable	-	98,984	-	98,984	-
Revenue bonds payable	41,667	302,146	326,187	670,000	-
Compensated absences payable	4,120	8,616	7,244	19,980	15,467
<b>Total Current Liabilities</b>	<b>52,569</b>	<b>423,686</b>	<b>336,063</b>	<b>812,318</b>	<b>15,994</b>
<b>Long-Term Liabilities: (net of current portion)</b>					
Public works trust fund loan payable	-	676,284	-	676,284	-
Revenue bonds payable	880,297	7,829,061	7,958,523	16,667,881	-
Compensated absences payable	16,482	34,464	28,975	79,921	-
<b>Total Long-term Liabilities</b>	<b>896,779</b>	<b>8,539,809</b>	<b>7,987,498</b>	<b>17,424,086</b>	<b>-</b>
<b>Total Liabilities</b>	<b>949,348</b>	<b>8,963,495</b>	<b>8,323,561</b>	<b>18,236,404</b>	<b>15,994</b>
<b>Net Position</b>					
Net investment in capital assets	7,179,336	14,681,553	5,535,151	27,396,040	2,617,413
Restricted for debt service	76,404	585,062	596,384	1,257,850	-
Unrestricted	2,479,592	1,653,787	767,185	4,900,564	547,159
<b>Total Net Position</b>	<b>\$ 9,735,332</b>	<b>\$ 16,920,402</b>	<b>\$ 6,898,720</b>	<b>33,554,454</b>	<b>\$ 3,164,572</b>
<b>Reconciliation of the fund level statement of net position to the government-wide statement of net position:</b>					
Record internal service fund charge-back to enterprise funds resulting in an interfund receivable to governmental activities.				(251,277)	
<b>Adjusted Total Net Position</b>				<b>\$ 33,303,177</b>	

See accompanying notes to the basic financial statements

City of Mountlake Terrace, Washington  
Statement of Revenues,  
Expenses and Changes in Fund Net Position  
Proprietary Funds  
For the Year Ended December 31, 2014

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Sewer Utility	Water Utility	Storm Water Utility	Total	
<b>Operating Revenues</b>					
Charges for services	\$ 3,689,063	\$ 3,177,421	\$ 1,767,751	\$ 8,634,235	\$ 729,739
<b>Operating Expenses</b>					
Operations and maintenance	2,865,120	2,810,554	1,423,321	7,098,995	547,830
Depreciation	337,529	558,710	217,379	1,113,618	336,122
<b>Total Operating Expenses</b>	3,202,649	3,369,264	1,640,700	8,212,613	883,952
<b>Operating Income (Loss)</b>	486,414	(191,843)	127,051	421,622	(154,213)
<b>Non-Operating Revenues (Expenses)</b>					
Interest and fiscal charges	(35,644)	(185,402)	(213,488)	(434,534)	-
Gain on disposition of capital assets	-	-	-	-	58,632
Investment earnings	44,092	38,553	73,155	155,800	-
Miscellaneous revenue	2,147	11,081	17,866	31,094	-
<b>Total Non-Operating Revenues (Expenses)</b>	10,595	(135,768)	(122,467)	(247,640)	58,632
<b>Income (Loss) Before Contributions</b>	497,009	(327,611)	4,584	173,982	(95,581)
<b>Contributions</b>	10,646	39,902	32,323	82,871	-
<b>Change in Net Position</b>	507,655	(287,709)	36,907	256,853	(95,581)
<b>Net Position Beginning of Year</b>	9,227,677	17,208,111	6,861,813	33,297,601	3,260,153
<b>Net Position End of Year</b>	\$ 9,735,332	\$ 16,920,402	\$ 6,898,720	\$ 33,554,454	\$ 3,164,572
<b>Reconciliation of the fund level operating statement to the government-wide statement of activities:</b>					
Change in net position	\$ 507,655	\$ (287,709)	\$ 36,907	\$ 256,853	
Internal service fund charges (credits) to enterprise funds, resulting in changes to operating expenses.	(18,331)	(24,409)	(32,356)	(75,095)	
<b>Adjusted Change in Net Position</b>	\$ 489,324	\$ (312,118)	\$ 4,551	\$ 181,758	

See accompanying notes to the basic financial statements

City of Mountlake Terrace, Washington  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2014

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Sewer Utility	Water Utility	Storm Water Utility	Total	
<b>Increase (Decrease) in Cash and Cash Equivalents</b>					
<b>Cash Flows from Operating Activities</b>					
Cash received from customers	\$ 3,687,303	\$ 3,187,277	\$ 1,668,297	\$ 8,542,877	\$ 63,223
Cash received from interfund services provided	-	-	-	-	673,766
Cash payments to employees for services	(394,054)	(481,295)	(556,193)	(1,431,542)	(152,486)
Cash payments for goods and services	(2,528,145)	(2,331,574)	(881,483)	(5,741,202)	(395,820)
<b>Net Cash Provided by (Used in) Operating Activities</b>	765,104	374,408	230,621	1,370,133	188,683
<b>Cash Flows from Capital and Related Financing Activities</b>					
Proceeds from disposition of capital assets	-	-	-	-	107,233
Proceeds from revenue bonds	-	3,912,581	2,307,419	6,220,000	-
Principal paid on revenue bonds	(40,833)	(166,397)	(242,770)	(450,000)	-
Interest paid on revenue bonds	(35,240)	(132,127)	(184,358)	(351,725)	-
Bond issue costs paid on revenue bonds	(404)	(48,904)	(29,130)	(78,438)	-
Principal paid on public works trust fund loan	-	(98,984)	-	(98,984)	-
Interest paid on public trust fund loan	-	(4,371)	-	(4,371)	-
Payments for capital acquisitions	(339,491)	(687,962)	(2,181,677)	(3,209,130)	(573,535)
<b>Net Cash Provided by (Used in) Capital and Related Financing Activities</b>	(415,968)	2,773,836	(330,516)	2,027,352	(466,302)
<b>Cash Flows from Investing Activities</b>					
Purchase of investment securities	(245,871)	(1,692,567)	(461,531)	(2,399,969)	-
Proceeds from sale and maturities of investment securities	612,898	321,621	1,416,754	2,351,273	(66,737)
Investment earnings	12,869	14,209	12,537	39,615	518,398
<b>Net Cash Provided by (Used in) Investing Activities</b>	379,896	(1,356,737)	967,760	(9,081)	451,661
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	729,032	1,791,507	867,865	3,388,404	174,042
<b>Cash and Cash Equivalents Beginning of Year</b>	108,089	150,326	208,084	466,499	53,177
<b>Cash and Cash Equivalents End of Year</b>	\$ 837,121	\$ 1,941,833	\$ 1,075,949	\$ 3,854,903	\$ 227,219

See accompanying notes to the basic financial statements

City of Mountlake Terrace, Washington  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2014

(Continued)

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Sewer Utility	Water Utility	Storm Water Utility	Total	
<b>Reconciliation of Operating (Loss) to Net Cash Provided by (Used in) Operating Activities</b>					
Operating Income (Loss)	\$ 486,414	\$ (191,843)	\$ 127,051	\$ 421,622	\$ (154,213)
<b>Adjustments:</b>					
Depreciation	337,529	558,710	217,379	1,113,618	336,122
<b>(Increase) Decrease in Assets:</b>					
Accounts receivable	(1,760)	9,856	(84,438)	(76,342)	-
Intergovernmental receivable	-	-	(15,016)	(15,016)	7,250
<b>Increase (Decrease) in Liabilities:</b>					
Accounts payable	(441)	(2,208)	(4,521)	(7,170)	-
Intergovernmental payable	(48,796)	1,597	101	(47,098)	(223)
Compensated absences payable	(7,842)	(1,704)	(9,935)	(19,481)	(253)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<u>\$ 765,104</u>	<u>\$ 374,408</u>	<u>\$ 230,621</u>	<u>\$ 1,370,133</u>	<u>\$ 188,683</u>
<b>Schedule of Non-Cash Capital and Related Financing Activities</b>					
Capital assets contributed by private developers	\$ 10,646	\$ 39,902	\$ 32,323	\$ 82,871	\$ -
Increase (decrease) in fair value of investments	31,223	24,344	60,618	116,185	-
<b>Total Non-Cash Activities</b>	<u>\$ 41,869</u>	<u>\$ 64,246</u>	<u>\$ 92,941</u>	<u>\$ 199,056</u>	<u>\$ -</u>

See accompanying notes to the basic financial statements

**City of Mountlake Terrace, Washington**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**December 31, 2014**

	<b>Pension Trust</b>	<b>Agency</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,033	\$ 1,485,564
Investments	-	2,966,660
<b>Total Assets</b>	<u>1,033</u>	<u>\$ 4,452,224</u>
<b>Liabilities</b>		
Deposits payable	-	399,758
Intergovernmental payable	-	4,052,466
<b>Total Liabilities</b>	<u>-</u>	<u>\$ 4,452,224</u>
<b>Net Position</b>		
Held in trust for pension benefits	<u>\$ 1,033</u>	

See accompanying notes to the basic financial statements



**City of Mountlake Terrace, Washington**  
***Comparative Statement of Changes in Fiduciary Net Position***  
***Fiduciary Funds***  
***Firemen's Pension Trust Fund***  
***For the Years Ended December 31, 2014 and 2013***

	<u>2014</u>	<u>2013</u>
<b>Net Position Beginning of Year</b>	\$ 1,033	\$ 1,033
<b>Net Position End of Year</b>	<u>\$ 1,033</u>	<u>\$ 1,033</u>

See accompanying notes to the basic financial statements

The City of Mountlake Terrace, Washington (the City) was incorporated November 29, 1954, under the provision of Chapter 35A RCW as amended. The City operates under a Council - Manager form of government and provides the following services: public safety (police and fire protection), public works (streets, sanitation, and utilities), culture, recreation, and library services, planning and zoning, and general administrative services.

### ***Note 1 - Summary of Significant Accounting Policies***

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting.

The City does not follow private sector guidance issued after November 30, 1989.

The most significant of the City's accounting policies are described below.

#### ***1-A. Reporting Entity***

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City, this entity includes one component units as described below.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organizations; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization; or the City is obligated for the debt of the organization. Component units also may include organizations that are fiscally dependent on the City in that the City approves the budget, levies their taxes or issues their debt.

The City's component unit is presented as "blended." It is reported as if it were a fund of the City throughout the year. It is included at both the government-wide and fund financial reporting levels.

A brief description of the blended component unit follows:

***Mountlake Terrace Transportation Benefit District (TBD)*** - The TBD was established by the City Council by adopting Ordinance No. 2584, as authorized by RCW 35.21.255 and subject to the provision of Chapter 36.73 RCW on December 5, 2011. The City Council serves as the board of directors of the TBD, and they elect a Chairperson and Vice Chairperson of the TBD Board of Directors. The City's City Manager serves as the TBD's Executive Director, the City's Finance Director serves as the TBD's Treasurer, and the City's City Clerk serves as the TBD's Secretary.

The TBD Board of Director's authorized levying a \$20 vehicle license fee for City residents effective July 3, 2012, on January 3, 2012. The proceeds of the \$20 vehicle license fee will be applied to the City's transportation improvements that preserve, maintain, operate, construct or reconstruct the existing transportation infrastructure of the City.

Although the TBD is legally separated from the City, the TBD is reported as if it were part of the primary government because its sole purpose is to finance the City's transportation improvements.

#### ***1-B. Basis of Presentation***

The City's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities and fund financial statements, which provide a more detailed level of financial information.

***Government-wide Financial Statements*** - The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the City as a whole. Fiduciary activities are not included at the government-wide financial reporting level. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and grants and City's general revenues, from business-type activities, generally financed in whole or in part with user fees charged to external customers.

## ***Note 1 - Summary of Significant Accounting Policies (Continued)***

The statement of net position presents the financial position of the governmental and business-type activities of the City.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities and for each identifiable activity of the business-type activities of the City. Direct expenses are those that are specifically associated with a function and therefore clearly identifiable to that particular function. The City does not allocate indirect expenses to functions in the statement of activities.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. For identifying to which function program revenue pertains, the determining factor for *charges for services* is which function *generates* the revenue. For *grants and contributions*, the determining factor is to which function the revenues are *restricted*.

Other revenue sources not properly included with program revenues are reported as general revenues of the City. The comparison of direct expenses with program revenues identifies the extent to which each governmental function and each identifiable business activity is self-financing or draws from the general revenues of the City.

***Fund Financial Statements*** - During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. Fund financial statements are provided for governmental, proprietary and fiduciary funds.

Major individual governmental and enterprise funds are reported in separate columns.

***Fund Accounting*** - The City uses funds to maintain its financial records during the year. A fund is a fiscal and accounting entity with a self-balancing set of accounts. The City uses three categories of funds: governmental, proprietary and fiduciary.

***Governmental Funds*** - Government funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Fund liabilities are assigned to the fund from which they will be liquidated. The City reports the difference between governmental fund assets and liabilities as fund balance. The following are the City's major governmental funds:

***The General Fund*** – The general fund accounts for all financial resources except those required to be accounted for in another fund. The general fund's fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of the State of Washington.

***Street Construction Fund*** – This fund is a major special revenue fund that accounts for financial resources to be used for projects that provide, preserve and improve street, pedestrian and traffic control facilities. Revenues reported in this fund include state and local grants, a share of the State's motor vehicle fuel taxes, reimbursements from other cities for street construction on joint projects, and traffic impact fees.

***Capital Improvements Fund*** – This is a capital projects fund that accounts for the financial resources and expenditures for all governmental capital improvement expenditures and projects.

***Proprietary Funds*** - Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. The proprietary funds are classified as enterprise funds and an internal service fund. The following are the City's major enterprise funds:

***Sewer Utility Fund*** – This fund accounts for the activities of providing sewer services to its citizens.

***Water Utility Fund*** – This fund accounts for the activities of providing water services to its citizens.

## ***Note 1 - Summary of Significant Accounting Policies (Continued)***

***Storm Water Utility Fund*** – This fund accounts for the activities of providing storm water services to its citizens.

***Internal Service Fund – Fleet Management Fund*** - This fund accounts for fleet maintenance services provided to other departments of the city on a cost reimbursement basis.

***Fiduciary Fund – Firefighters’ Pension Trust Fund*** - The City’s fiduciary funds include a pension trust fund for excess pension payments to qualified fire fighters and four agency funds, the private suspense fund, public suspense fund, the investment clearing fund and the benefit clearing account. Pension trust fund reporting focuses on net position.

### ***1-C. Measurement Focus***

***Government-wide Financial Statements*** - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net position. The statement of activities reports revenues and expenses. The government-wide financial statements do not include the fiduciary fund types.

***Fund Financial Statements*** - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the governmental fund statements.

Like the government-wide statements, all proprietary fund types and the pension trust fund are accounted for on a flow of economic resources measurement focus on both financial reporting levels. All assets and all liabilities associated with the operation of these funds are included on the statements of net position. The statements of changes in fund net position present increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

### ***1-D. Basis of Accounting***

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. At the fund reporting level, the governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting at both reporting levels. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows and outflows, and in the presentation of expenses versus expenditures.

***Revenues – Exchange Transactions*** - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded when the exchange takes place and in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, the phrase “available for exchange transactions” means expected to be received within 60 days of year-end.

***Revenues - Non-exchange Transactions*** - Non-exchange transactions in which the City receives value without directly giving equal value in return, include sales taxes, property taxes, grants and donations. On an accrual basis, revenue from sales taxes is recognized in the period in which the taxable sale takes place. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (Note 3-C) Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions also must be available (i.e., collected within 60 days) before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be susceptible to accrual: property taxes, and federal and state grants.

### ***Note 1 - Summary of Significant Accounting Policies (Continued)***

***Expenses/Expenditures*** - On the accrual basis of accounting, expenses are recognized at the time they are incurred. On the modified accrual basis, expenditures generally are recognized in the accounting period in which the related fund liability is incurred and due, if measurable.

#### ***1-E. Assets, Liabilities and Net Position/Fund Balances***

##### ***1-E-1 Cash, Cash Equivalents, and Investments***

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the City.

Investments are stated at fair value based on quoted market prices.

The City is empowered to invest in the following types of securities identified as eligible investments as defined by RCW 35A.40.050 and RCW 43.84.080. In general, these consist of:

- Investment deposits (certificates of deposits) with qualified public depositories as defined in Chapter 39.58 RCW.
- Certificates, notes or bonds of the United States, or other obligations of the United States or its agencies, or of any corporation wholly owned by the government of the United States whose securities carry full faith and credit guarantees.
- Obligations of government sponsored corporations, which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System. (These include but are not limited to, Federal Home Loan Bank notes and bonds, Federal Farm Credit Bank consolidated notes and bonds, and Federal National Mortgage Associates notes.)
- Prime bankers acceptances purchased on the secondary market.
- Repurchase agreements for securities listed above, provided that the transaction is structured so that the City obtains ownership and control over the underlying securities. A Master repurchase agreement between the City and the bank or dealer must be on file prior to any repurchase agreement transaction.
- The Washington Local Government Investment Pool

Interest earnings are allocated to each fund monthly, based on average pooled equity balances.

##### ***1-E-2 Receivables***

All trade and tax receivables are reported net of an allowance for uncollectibles, where applicable. Taxes receivable consists of property taxes, sales tax, utility taxes, gambling taxes, liquor excise tax and state shared program revenues.

##### ***1-E-3 Interfund Balances***

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/interfund payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for any net residual amounts due between governmental and business-type activities, which are reclassified and presented as internal balances.

##### ***1-E-4 Inventories***

On the government-wide financial statements and at the fund financial reporting level, inventories are presented at cost using the weighted average cost method and are expensed when used (i.e., the consumption method).

##### ***1-E-5 Capital Assets***

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in governmental funds. The City reports these assets in the governmental activities column of the government-wide statement of net position but does not report these assets in the Government fund financial

statements. Capital assets utilized by enterprise funds are reported both in the business-type activities column of the government-wide statement of net position and in the enterprise funds' statement of net position.

### ***Note 1 - Summary of Significant Accounting Policies (Continued)***

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of five thousand dollars and an estimated three year life. Improvements to capital assets are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed. Interest incurred during the construction of capital assets utilized by enterprise funds is capitalized.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement.

Depreciation is computed using the straight-line method over the following useful lives:

Asset Class	Estimated Lives	
	Governmental Activities	Business-type Activities
Buildings	40 - 50 Years	40 - 50 Years
Improvements	20 - 30 Years	20 - 30 Years
Machinery and equipment	5 - 10 Years	5 - 10 Years
Infrastructure	7 - 75 Years	18.5 - 75 Years

At the inception of capital leases at the governmental fund reporting level, expenditures and an "other financing source" of an equal amount are reported at the net present value of future minimum lease payments.

#### ***1-E-6 Compensated Absences***

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the City's past experience of making termination payments. Upon termination of employment, employees receive 25% of accumulated sick leave.

Earned compensatory time is accrued at December 31, 2014. All compensated absence liabilities include salary-related payments, where applicable.

The total compensated absence liability is reported on the government-wide financial statements. Proprietary funds report the total compensated liability in each individual fund at the fund reporting level. Governmental funds report the compensated absence liability at the fund reporting level only "*when matured (i.e., due)*."

#### ***1-E-7 Accrued Liabilities and Long-term Obligations***

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the these funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are "due for payment" during the current year. Bonds and local loans are recognized as a liability in the governmental fund financial statements when due.

## ***Note 1 - Summary of Significant Accounting Policies (Continued)***

### ***1-E-8 Bond Premiums, Discounts and Issuance Costs***

On the government-wide statement of net position and the proprietary fund type statement of net position, debt premiums and discounts are netted against the debt payable. On the government-wide and proprietary fund type statement of activities, debt premiums and discounts, are deferred and amortized over the life of the using the effective interest method.

Bond issuance costs are recognized as an outflow of resources in the reporting period in which they are incurred.

### ***1-E-9 Fund Equity***

Fund equity at the governmental fund financial reporting level is classified as “fund balance.” Fund equity for all other reporting is classified as “net position.”

***Fund Balance – Fund Balance*** – Generally, fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

- ***Nonspendable*** – Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.
- ***Restricted*** – Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.
- ***Committed*** – Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council through the approval of a motion. Only, the City Council also may modify or rescind the commitment.
- ***Assigned*** – Fund balances are reported as assigned when amounts are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. Through resolution, the City Council has authorized the City manager or designee to assign fund balances.
- ***Unassigned*** - Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The City reports positive unassigned fund balance only in the general fund. Negative unassigned fund balances may be reported in all funds.

***Net Position Flow Assumptions*** – In order to report net position as a restricted – net position and an unrestricted – net position in the government-wide and proprietary fund financial statements, the City has established a flow assumption policy. It is the City’s policy to use restricted – net position first before using unrestricted – net position.

***Fund Balance Flow Assumptions*** – It is the City’s policy to consider restricted fund balance to have been used before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, it is the City’s policy to use fund balance in the following order:

- Committed
- Assigned
- Unassigned

***Fund Balance Policy*** – On August 21, 2006, the City Council adopted this policy by motion. The policy as adopted follows:

“The City will maintain a minimum undesignated general fund balance equal to 5% of general fund expenditures. In the event the undesignated general fund balance is used to provide for temporary funding of unforeseen emergency needs, the City will restore the undesignated general fund balance to the minimum of 5% within two years.”



## ***Note 1 - Summary of Significant Accounting Policies (Continued)***

**Net Position** – The net position represents the difference between assets and liabilities. The net position component, “net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the City has not spent) for the acquisition, construction or improvement of those assets. The net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The balance of the net position is reported as unrestricted.

### ***1-E-10 Operating Revenues and Expenses***

Operating revenues and expenses generally result from providing services and producing and delivering goods in consistent with a proprietary fund’s principal ongoing operations. The principal operating revenues of the city’s utility funds and internal service funds are charges to customers for sales and services and vehicle replacement. The City also recognizes as operating revenue the portion of utility connection fees intended to recover the cost of connecting new customers to the water and sewer system.

Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, taxes, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues (i.e., investment earnings, operating grants and the gain on the disposition of capital assets) and non-operating expenses (i.e., interest expense).

### ***1-E-11 Interfund Activity***

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and the after non-operating revenues/expenses section in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements (i.e., they are netted).

Transfers between governmental and business-type activities on the government-wide statement of activities are reported as general revenues. Transfers between funds reported in the governmental activities column are eliminated. Transfers between funds reported in the business type activities column are eliminated.

### ***1-E-12 Estimates***

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

### ***1-E-13 Comparative Data***

Comparative total data for the prior year have been presented only for individual funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified to be consistent with the current year’s presentation.

## ***Note 2 – Stewardship, Compliance and Accountability***

**2-A. Budgetary Information** – The City adopts biennial budgets for all governmental funds.

The legal level of control (the level at which expenditures may not legally exceed appropriations) for each adopted annual operating budget generally is the individual fund level. Any change in total to a fund requires approval of the City Council.

The City Manager or Finance Director may approve budget transfers between departments within a fund.

All budgets are adopted on a GAAP basis (i.e., modified accrual basis) All unexpended annual appropriations lapse at year-end.



### ***Note 3 - Detailed Notes on All Funds***

#### ***3A. Deposits and Investments***

***Custodial Credit Risk – Deposits*** – In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's bank balances of deposits as of December 31, 2014, are entirely insured by Federal Depositary Insurance (FDIC) up to \$250,000 and all deposits not covered by FDIC insurance are covered by Washington Public Deposit Protection Commission (WPDPC) of the State of Washington for amounts over \$250,000.

The WPDPC is a statutory authority established under RCW Chapter 39.58. It constitutes a multiple financial institution collateral arrangement that provides for additional assessments against members of the pool on a pro rata basis up to a maximum of 10 percent of each institution's public deposits. Provisions of RCW chapter 39.58, section 60 authorize the WPDPC to make pro rata assessments in proportion to the maximum liability of each such depository as it existed on the date of loss.

#### ***Investments***

***Interest Rate Risk*** – Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average of maturity of its investments to less than eight years.

At December 31, 2014, the City held the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity - Years</u>
Federal Home Loan Bank	\$ 497,341	3.6
Federal Home Loan Mortgage Corporation	2,002,159	4.2
Federal National Mortgage Association	7,404,182	3.5
Total	<u>\$ 9,903,682</u>	

***Credit Quality Risk*** –Credit quality risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of debt securities as of December 31, 2014 are:

<u>Debt Security</u>	<u>S &amp; P Rating</u>
Federal Home Loan Bank	AAA
Federal Home Loan Mortgage Corporation	AAA
Federal National Mortgage Association	AAA

### **Note 3 - Detailed Notes on All Funds (Continued)**

**Custodial Credit Risk - Investments** – For investments, custodial credit risk is the risk that, in the event of a bank failure, the City's investments may not be recovered. All City securities are held for safekeeping by US Bank, as the City's agent, in the City's name.

**Concentration of Credit Risk** –Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. Currently, the City does not have an investment policy relating to concentration of credit risk.

The City's investments in the Federal Home Loan Bank and the Federal Home Loan Mortgage Corporation (Freddie Mac), government-sponsored enterprises, which are not explicitly backed by the federal government, are 4% and 17% of the City's total investment portfolio market value, respectively.

#### **Cash & Investment Reconciliation:**

	Pooled Cash and Cash Equivalents	Investments	Total
Fund Reporting Level:			
Governmental Fund Type - Balance Sheet	\$ 1,901,207	\$ 2,185,316	\$ 4,086,523
Proprietary Fund Type Statement of Net Position:			
Enterprise Funds	3,854,903	7,384,715	11,239,618
Internal Service Funds	227,219	333,651	560,870
Statement of Fiduciary Net Position	1,486,597	2,966,660	4,453,257
Total	<u>\$ 7,469,926</u>	<u>12,870,342</u>	<u>\$ 20,340,268</u>
Cash			\$ 6,975,367
Investments			<u>12,870,342</u>
Total			<u>\$ 19,845,709</u>

#### **3B. Receivables**

Receivables and payables are recorded on the City's financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and in the case of receivables, collectibility.

#### **3C. Property Taxes**

The County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed to the City monthly. The following is the property tax calendar:

January 1	Property taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property established for next year's levy at 100% of market value.
October 31	Second installment is due.

**Note 3 - Detailed Notes on All Funds (Continued)**

**3-D. Capital Assets**

Capital asset activity for the year ended December 31, 2014, was as follows:

<b>Governmental Activities:</b> (including Internal Service fund):	Beginning Balance 1/1/2014	Increases	Decreases	Ending Balance 12/31/2014
Nondepreciable capital assets:				
Land	\$ 1,538,605	\$ -	\$ -	\$ 1,538,605
Construction in progress	4,611,374	1,317,079	3,123,287	2,805,166
Total nondepreciable capital assets	6,149,979	1,317,079	3,123,287	4,343,771
Depreciable capital assets				
Buildings	13,182,210	15,297	-	13,197,507
Improvements other than buildings	1,366,690	178,396	-	1,545,086
Machinery and equipment	5,821,651	652,087	599,883	5,873,855
Infrastructure	22,742,843	4,498,372	-	27,241,215
Total depreciable capital assets	43,113,394	5,344,152	599,883	47,857,662
Total capital assets	49,263,373	6,661,230	3,723,169	52,201,433
Less accumulated depreciation for:				
Buildings	8,001,444	263,534	-	8,264,977
Improvements other than buildings	1,130,256	33,003	-	1,163,258
Machinery and equipment	3,373,849	452,692	548,359	3,278,182
Infrastructure	14,313,406	690,803	-	15,004,209
Total accumulated depreciation	26,818,955	1,440,031	548,359	27,710,626
Governmental activities capital assets, net	\$ 22,444,418	\$ 5,221,199	\$ 3,174,810	\$ 24,490,807

**Note 3 - Detailed Notes on All Funds (Continued)**

<b>Business-Type Activities:</b>	Beginning Balance 1/1/2014*	Increases	Decreases	Ending Balance 12/31/2014
Nondepreciable capital assets:				
Land	\$ 2,128,469	\$ -	\$ -	\$ 2,128,469
Construction in progress	6,617,767	289,359	6,513,819	393,307
Total nondepreciable capital assets	8,746,236	289,359	6,513,819	2,521,776
Depreciable capital assets:				
Buildings	1,745,808	998,366	-	2,744,174
Improvements other than buildings	21,168	-	-	21,168
Machinery and equipment	621,470	-	14,091	607,379
Infrastructure	40,143,257	8,233,043	-	48,376,300
Intangibles	2,726,106	285,052	-	3,011,158
Total depreciable capital assets	45,257,809	9,516,461	14,091	54,760,179
Total capital assets	54,004,044	9,805,819	6,527,910	57,281,955
Less accumulated depreciation for:				
Buildings	832,141	78,924	-	911,065
Improvements other than buildings	19,478	250	-	19,728
Machinery and equipment	347,909	59,541	14,091	393,359
Infrastructure	14,794,844	892,295	-	15,687,139
Intangibles	898,866	82,609	-	981,475
Total accumulated depreciation	16,893,238	1,113,619	14,091	17,992,766
Business-type activities capital assets, net	\$ 37,110,806	\$ 8,692,201	\$ 6,513,819	\$ 39,289,189

\*Certain assets were reclassified from the infrastructure classification to the intangible classification.

**Depreciation Expense by Function:**

<b>Governmental Activities</b>	
General Government	\$ 79,805
Public Safety	193,631
Physical Environment	216,913
Transportation	700,267
Economic Environment	16,239,26
Culture and Recreation	233,177
Total Depreciation Expense - Governmental Activities	<u>\$ 1,440,031</u>
<b>Business-type Activities</b>	
Sewer	\$ 337,529
Water	558,710
Storm Water	217,379
Total Depreciation Expense - Business-Type Activities	<u>\$ 1,113,619</u>

### ***Note 3 - Detailed Notes on All Funds (Continued)***

#### ***3-E. - Interfund Transfers***

Interfund transfers for the year ended December 31, 2014, consisted of the following:

Transfers to	Transfers from:		
	General Fund	Nonmajor Governmental Funds	Total
Street Construction Fund	\$ -	\$ 320,000	\$ 320,000
Capital Improvements Fund	152,000	170,000	322,000
Nonmajor Governmental Funds	973,727	-	973,727
Total	<u>\$ 1,125,727</u>	<u>\$ 490,000</u>	<u>\$ 1,615,727</u>

Transfers are used to report revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed.

Generally, all City transfers either occur on a regular basis or are consistent with the purpose of the fund making the transfer.

#### ***3-F. Long-Term Debt***

This City issues general obligation bonds and revenue bonds to finance the acquisition and construction of capital facilities. Bonded indebtedness has also been entered into (currently and in prior years) to advance refund several general obligation and revenue bonds. General obligation bonds have been issued for both general government and business-type activities and are being repaid from the applicable resources. The revenue bonds are being repaid by proprietary fund revenues. The City's long-term debt is not subject to arbitrage as the general obligation bond issues were under the arbitrage exclusion limit of \$5,000,000, and the revenue bond proceeds will be expended within two years of receipt.

#### ***Governmental Activities General Obligation Bonds***

The City has two outstanding general obligation bonds, as follows:

Bond Issue	Purpose	Range	Rate	Amount
2013A Refunding Bonds	Refinance 1993A & 2001 Bonds	2014 - 2023	2.08%	\$ 1,490,000
2013B Gen'l Obligation Bonds	Refinance BAN Short Term Debt	2015 - 2021	3.70%	1,680,000

Annual debt service requirements to amortize general obligations bonds outstanding, as of December 31, 2014 follow:

Year	Principal	Interest	Total
2015	\$ 520,000	\$ 78,287	\$ 598,287
2016	410,000	63,826	473,826
2017	370,000	51,572	421,572
2018	355,000	39,988	394,988
2019	365,000	28,554	393,554
2020-2023	595,000	23,614	618,614
Total	<u>\$ 2,615,000</u>	<u>\$ 285,841</u>	<u>\$ 2,900,841</u>

### Note 3 - Detailed Notes on All Funds (Continued)

**Public Works Trust Fund Loan** – The City received a loan from the State of Washington Public Works Trust Board for the engineering design work on the Gateway Boulevard Project in the amount of \$120,000. This loan is due in annual installments of \$30,000 per year plus interest beginning in 2015 through June 1, 2018, with an interest rate of 1.0%.

Annual debt service requirements to amortize the local loan outstanding, as of December 31, 2014 follow:

Year	Principal	Interest	Total
2015	\$ 30,000	\$ 1,143	\$ 31,143
2016	30,000	900	30,900
2017	30,000	600	30,600
2018	30,000	300	30,300
Total	<u>\$ 120,000</u>	<u>\$ 2,943</u>	<u>\$ 122,943</u>

**Governmental Activities Local Loan** – The City received a loan from the Washington State Local Option Capital Asset Lending (LOCAL) Loan program for the purchase, construction and installation of a new HVAC system at the Pavilion on March 13, 2003 in the amount of \$1,200,000. The loan is due in semi-annual installments of \$39,000 to \$60,000 through December 2014, with an interest rate of 3.44%. This loan was retired in 2014.

**Business-type Activities – Revenue Bonds** – The City has three outstanding revenue bond issues that were issued to fund the design and construction of a 2.13 million gallon water reservoir and are outstanding as follows:

Bond Issue	Bond Purpose	Maturity Range	Interest Rate	Original Issue Amount
Public Works Trust Loan Fund	Preconstruction Water Reservoir	2002 - 2021	0.5%	\$ 248,625
Public Works Trust Loan Fund	Construction Water Reservoir	2003 - 2022	0.5%	1,166,800

**Public Works Trust Fund Loan** – The City received a loan from the State of Washington Public Works Trust Board for the engineering design work on the Gateway Boulevard Project in the amount of \$120,000. This loan is due in annual installments of \$30,000 per year plus interest beginning in 2015 through June 1, 2018, with an interest rate of 1.0%.

Annual debt service requirements to amortize the public works trust fund loan outstanding, as of December 31, 2014 follow:

Year	Principal	Interest	Total
2015	\$ 98,984	\$ 3,876	\$ 102,860
2016	98,984	3,381	102,365
2017	98,984	2,886	101,870
2018	98,984	2,392	101,376
2019	98,984	1,897	100,881
2020-2023	<u>280,348</u>	<u>2,721</u>	<u>283,069</u>
Total	<u>\$ 775,268</u>	<u>\$ 17,153</u>	<u>\$ 792,421</u>

**Water and Sewer Revenue Bonds, Series 2010** – On August 30, 2010, the City issued \$6,280,000 of revenue bonds with a premium of \$257,596 at an average coupon interest rate of 3.475%. The bonds mature on December 1, 2030. The purpose of this issue is for utility capital improvements, including a public works shop building.

### Note 3 - Detailed Notes on All Funds (Continued)

Annual debt service requirements to amortize the revenue bonds outstanding, as of December 31, 2014 follow:

Year	Principal	Interest	Premium	Total
2015	\$ 250,000	\$ 206,625	\$ 12,880	\$ 469,505
2016	255,000	201,625	12,880	469,505
2017	265,000	191,425	12,880	469,305
2018	275,000	180,825	12,880	468,705
2019	285,000	169,825	12,880	467,705
2020-2024	1,610,000	671,850	64,399	2,346,249
2025-2029	1,950,000	328,000	64,398	2,342,398
2030	440,000	17,600	8,586	466,186
Total	<u>\$ 5,330,000</u>	<u>\$ 1,967,775</u>	<u>\$ 201,783</u>	<u>\$ 7,499,558</u>

Water and Sewer Revenue Bonds, Series 2012 – On October 31, 2012 the City issued \$5,145,000 of revenue bonds with a premium of \$364,263 at an average coupon interest rate of 2.75%. The bonds mature on December 1, 2032. The purpose of this issue is for utility capital improvements, including replacing all water meters with automated meters, and detention and water quality projects.

Annual debt service requirements to amortize the revenue bonds outstanding, as of December 31, 2014 follow:

Year	Principal	Interest	Premium	Total
2015	\$ 210,000	\$ 136,100	\$ 18,213	\$ 364,313
2016	215,000	131,900	18,213	365,113
2017	215,000	127,600	18,213	360,813
2018	220,000	123,300	18,213	361,513
2019	230,000	116,700	18,213	364,913
2020-2024	1,245,000	476,550	91,066	1,812,616
2025-2029	1,440,000	278,400	91,066	1,809,466
2030-2032	975,000	59,100	51,604	1,085,704
Total	<u>\$ 4,750,000</u>	<u>\$ 1,449,650</u>	<u>\$ 324,801</u>	<u>\$ 6,524,451</u>

Water and Sewer Revenue Bonds, Series 2014 - On December 30, 2014 the City issued \$6,220,000 of revenue bonds with a premium of \$511,296 at coupon interest rates ranging from 2% to 4%, with a true interest cost of 3.077%. The bond mature on December 1, 2034. The purpose of this issue is for utility capital improvements, including water main improvements and storm lines.

**Note 3 - Detailed Notes on All Funds (Continued)**

As of December 31, 2014 there is unamortized premium of \$511,296 remaining on the Series 2014 debt. Annual debt service requirements to amortize the revenue bonds outstanding, as of December 31, 2014 follow:

Year	Principal	Interest	Premium	Total
2015	\$ 210,000	\$ 209,220	\$ 25,565	\$ 444,785
2016	230,000	223,350	25,565	478,915
2017	235,000	218,750	25,565	479,315
2018	240,000	211,700	25,565	477,265
2019	250,000	204,500	25,564	480,064
2020-2024	1,370,000	897,550	127,824	2,395,374
2025-2029	1,660,000	609,600	127,824	2,397,424
2030-2034	<u>2,025,000</u>	<u>249,000</u>	<u>127,824</u>	<u>2,401,824</u>
Total	<u>\$ 6,220,000</u>	<u>\$ 2,823,670</u>	<u>\$ 511,296</u>	<u>\$ 9,554,966</u>

**Other Outstanding Debt – Compensated Absences** - Accumulated vacation time shall not exceed 40 working days per employee at the beginning of any new fiscal year. Sick leave can accumulate from year to year. Accrued amounts are based on the vested portion, which is determined by termination provisions. Upon termination of employment, compensation provisions provide a benefit to the employee at the rate of 25% of accumulated sick leave.

The recorded accruals for compensated absences included in governmental activities are as follows:

Vacation	\$ 522,913
Sick leave	255,778
Compensatory time	<u>44,120</u>
Total	<u>\$ 822,811</u>

**Intergovernmental Payable** –This amount is due to Fire District No. 1 for a contract settlement for retro-active wages with a balance due at December 31, 2014 of \$511,014, with \$255,507 due in calendar year 2015 and the same amount due in 2016.



### Note 3 - Detailed Notes on All Funds (Continued)

**Changes in Long-term Debt** - Changes in the City's long-term obligations consisted of the following for the year ended December 31, 2014 (includes internal service fund):

	Outstanding 1/1/2013	Additions	Reductions	Outstanding 12/31/2013	Amounts Due in One Year
Governmental Activities					
General obligation bonds	\$ 1,380,000	\$ -	\$ 240,000	\$ 1,140,000	\$ 295,000
Limited liability GO bond	1,680,000	-	205,000	1,475,000	225,000
Local loan	120,275	-	120,275	-	-
Public works board loan	11,698	108,302	-	120,000	30,000
Intergovernmental payable	-	255,507	-	255,507	255,507
Compensated absences	796,145	506,199	479,533	822,811	164,562
OPEB	2,079,349	863,876	336,170	2,607,055	-
Total Governmental Activities	<u>\$ 6,067,467</u>	<u>1,733,884</u>	<u>\$ 1,380,978</u>	<u>\$ 6,420,373</u>	<u>\$ 970,069</u>
Business-Type Activities					
Public works trust fund loan	\$ 874,252	\$ -	\$ 98,984	\$ 775,268	\$ 102,860
Utility revenue bonds	10,530,000	6,220,000	450,000	16,300,000	670,000
Unamortized bond premium	557,678	511,296	31,093	1,037,881	47,174
Total loans and bonds	11,961,930	6,731,296	580,077	18,113,149	820,034
Compensated absences	119,382	59,179	78,659	99,902	19,980
Total Business-Type Activities	<u>\$ 12,081,312</u>	<u>\$ 6,790,475</u>	<u>\$ 658,736</u>	<u>\$ 18,213,051</u>	<u>\$ 840,014</u>

The general obligation bonds and the local loan are being retired by the debt service fund. The intergovernmental payable is retired by the general fund. The compensated absences liability and net OPEB obligation will be paid from the fund from which the employees' salaries are paid. The public works board loan is being retired from the transportation benefit district fund. The public works trust fund loan is being retired from the water utility fund. The 2010 water and sewer revenue bonds are being retired by water utility fund (41.666%), sewer utility fund (16.666%) and the storm water utility fund (41.666%). The 2012 revenue bonds are being retired by the water utility fund (31.37%), and the storm water utility fund (68.63%). The 2014 revenue bonds will be retired by the water utility fund (62.9%) and the storm water utility fund (37.1%).

#### 3-G. Operating Lease

On November 15, 2013, the City entered into an operating lease agreement with the Mountlake Terrace Senior's Group, a Nonprofit Organization, for the use of the Ballinger Golf Course Clubhouse.

The minimum lease payments are as follows:

Year	Minimum Lease Payments
2015	\$ 18,000
2016	18,000
2017	18,000
2018	18,000
Total	<u>\$ 72,000</u>

#### 3-I. Pensions

Substantially all (city/county/district) full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a

### ***Note 3 - Detailed Notes on All Funds (Continued)***

department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CARF may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov). The following disclosures are made pursuant to the GASB Statement 27, Accounting for Pensions by State and Local Government Employers and the GASB Statement 50, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.

#### ***Public Employees' Retirement System (PERS) Plans 1, 2 or 3***

##### ***Plan Description***

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan.

PERS Participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and by either February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3 and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

### ***Note 3 - Detailed Notes on All Funds (Continued)***

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any worker's compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with 5 years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by three percent for each year before age 65.
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the members will retire at age 65.

For DRS' fiscal year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan refunds paid out were \$69.4 million.

The defined benefit portion of PERS Plan 3 provides members of a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

**Note 3 - Detailed Notes on All Funds (Continued)**

- If they have at least 10 service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is two percent of the AFC per year of service. For Plan 3, the monthly benefit amount is one percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted based on the Consumer Price Index, capped at three percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty related death benefit is provided to the beneficiary or the estate of a PERS member who dies as the result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

Retirees and beneficiaries receiving benefits	85,328
Terminated plan members entitled to but not yet receiving benefits	31,047
Active plan members vested	150,706
Terminated plan members nonvested	101,191
Total	<u>368,272</u>

**Funding Policy**

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6% for state agencies and local government unit employees, and at 7.5% for state government elected officials. The employer and employee contributions rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2014, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

\* The employer rates include the employer administrative expense fee currently set at 0.18%.

**Note 3 - Detailed Notes on All Funds (Continued)**

\*\* The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.

\*\*\* Plan 3 defined benefit portion only.

\*\*\*\* The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.

\*\*\*\*\* Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member

Both the City and the employees made the required contributions. The city's required contributions for the years ended December 31 were as follows:

Year	PERS Plan 1	PERS Plan 2	PERS Plan 3
2014	\$ 8,428	\$ 443,644	\$ 70,750
2013	14,051	409,587	62,118
2012	12,208	374,207	56,653

**Law Enforcement Officers' and Firefighters' Retirement System (LEOFF) Plans 1 and 2**

**Plan Description**

The Legislature established LEOFF in 1970. Membership in the system includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005 emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being an exception. LEOFF retirement benefit provisions are established in Chapter 41.26 RCW and may be amended only by the State Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF Plan 2 retirement plan.

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest rate at a specified by the Director of DRS. During DRS' fiscal year 2013, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings upon separation from LEOFF-covered employment.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50.

The benefit per year of service calculated as a percent of final average salary is as follows:

Terms of Service	% of Final Average
20 +	2.0%
10 - 20	1.5%
5 - 10	1.0%

The final average salary is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24

***Note 3 - Detailed Notes on All Funds (Continued)***

months' salary within the last 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index.)

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus five percent of FAS for each eligible surviving child, with a limitation on the combined allowances of 60 percent of the FAS; or (2) If no eligible spouse, eligible children receive 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS, divided equally.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

The LEOFF Plan 1 disability allowance is 50 percent of the FAS plus five percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability allowance or service retirement allowance.

LEOFF Plan 2 members are vested after the completion of five years of eligible service.

Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at the age of 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service (the FAS is based on the highest consecutive 60 months), actuarially reduced to reflect the choice of a survivor option. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 benefit amount is two percent of the FAS for each year of service. Benefits are reduced to reflect the choice of survivor option and for each year that the member's age is less than 53, unless the disability is duty-related. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53.

A disability benefit equal to 70 percent of their FAS, subject to offsets for worker's compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are catastrophically disabled in the line of duty and incapable of future substantial gainful employment in any capacity. Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement benefit of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 percent of the FAS is not subject to federal income tax.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.



Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of eligible health care insurance premiums.

**Note 3 - Detailed Notes on All Funds (Continued)**

Legislation passed in 2009 provides to the Washington-state-registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.

LEOFF members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

Retirees and beneficiaries receiving benefits	10,511
Terminated plan members entitled to but not yet receiving benefits	699
Active plan members vested	16,830
Terminated plan members nonvested	<u>1,600</u>
Total	<u><u>29,640</u></u>

**Funding Policy**

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. However, this special funding situation is not mandated by the state constitution and could be changed by statute. For DRS' fiscal year 2014, the state contributed \$55.6 million to the LEOFF Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2014, are as follows:

	<b>LEOFF Plan 1</b>	<b>LEOFF Plan 2</b>
Employer*	0.18%	5.23%**
Employee	0.00%	8.41%
State	N/A	3.36%

\*The employer rates include the employer administrative expense fee currently set at 0.18%.

\*\* The employer rate for ports and universities is 8.59%.

Both the city and the employees made the required contributions. The city's required contributions for the years ended December 31 were as follows:

Year	LEOFF Plan 1	LEOFF Plan 2
2014	-	\$ 121,401
2013	-	125,494
2012	-	131,381

**Note 3 - Detailed Notes on All Funds (Continued)**

**Other Retirement Systems and Other Employee Benefit Trust Funds**

**Volunteer Firefighters Relief and Pension Fund**

The Volunteer Firefighters Relief and Pension Fund System is a cost-sharing multiple-employer retirement system, which was created by the Legislature in 1945 under Chapter 41.16 RCW. It provides pension, disability, and survivor benefits. Membership in the system requires service with a fire department of an electing municipality of Washington State (except those employees covered by LEOFF).

The system is funded through member contributions of \$30 per year, employer contributions of \$30 per year, and 40% of the Fire Insurance Premium Tax. Members do not earn interest on their contributions. However, they may elect to withdraw their contribution upon termination. Currently, the City does not have any members in this system.

**Municipal Employees Benefit Trust**

On September 30, 1975, the City elected, pursuant to law, to withdraw from the Federal Social Security System. A substitute defined contribution plan, known as the Municipal Employees Benefit Trust (MEBT), was set up under Internal Revenue Code requirements. A board, comprised of City employees, is empowered with the leadership of the Trust. All regular full-time and part-time employees are eligible to participate in the program.

The City and the participants are required to contribute an amount equal to that, which would have been required under the Federal Insurance Contribution Act (less the amount contributed for Medicare insurance.) For 2014, the City's contribution rate was 4.96% and the participant's contribution rates were 6.2% of gross salary. Contributions by temporary employees are 7.5% of salary as required by law for employees not covered by any other retirement program.

Until the year 2000, every participant could contribute additional voluntary amounts not to exceed 10% of the participant's total compensation for all participating years less total voluntary contributions for all previous plan years. Effective January 1, 2000, voluntary contributions were no longer permissible.

All participants have a non-forfeitable interest in the employee's mandatory and voluntary contributions. Participants vest at the rate of 20% per year (up to five years) in the employer's share of the account balance.

The City's covered payroll for the year ended December 31, 2014 was \$8,599,130.

The City's contribution rates, expressed as a percentage of covered payroll, and actual contributions for the year ended December 31, 2014 were:

	Contribution Rate	Amount
Employer	4.96%	\$416,114
Employee	6.2% or 7.5%	520,142

The market value of assets available for plan benefits as of December 31, 2014 is \$19,918,703. Assets of the plan are not the property of the City and are not included in the accompanying financial statements.

**3-I. Other Postemployment Benefits**

**Plan Description** - As required by the Revised Code of Washington (RCW) Chapter 41.26, the City provides lifetime medical care for 27 LEOFF 1 retirees. The City provides medical insurance and reimbursements for all necessary hospital,



*Note 3 - Detailed Notes on All Funds (Continued)*

medical, and nursing care expenses not payable by worker's compensation, social security, insurance provided by another employer, other pension plan, or any other similar source are covered. Medical insurance for the retirees is provided by the City's employee medical insurance program. Under the authorization of the LEOFF Disability Board, direct payment is made for other retiree medical expenses not covered by standard medical plan benefit provisions.

**Plan Description (Medical Services)** - There are basically two sections in the Chapter 41 Revised Code of Washington (RCW 41) that outline the medical services the City is obligated to provide to LEOFF I members: RCW 41.26.030(22) and 41.26.150. The two RCWs are listed in reverse below, since it is the latter section that provides the broad requirement:

*Note 3 - Detailed Notes on All Funds (Continued)*

41.26.150 - Sickness or disability benefits — Medical services.

(1) Whenever any active member, or any member hereafter retired, on account of service, sickness, or disability, not caused or brought on by dissipation or abuse, of which the disability board shall be judge, is confined in any hospital or in home, and whether or not so confined, requires medical services, the employer shall pay for the active or retired member the necessary medical services not payable from some other source as provided for in subsection (2) of this section. In the case of active or retired firefighters the employer may make the payments provided for in this section from the firemen's pension fund established pursuant to RCW 41.16.050 where the fund had been established prior to March 1, 1970. If this pension fund is depleted, the employer shall have the obligation to pay all benefits payable under chapters 41.16 and 41.18 RCW

(a) The disability board in all cases may have the active or retired member suffering from such sickness or disability examined at any time by a licensed physician or physicians, to be appointed by the disability board, for the purpose of ascertaining the nature and extent of the sickness or disability, the physician or physicians to report to the disability board the result of the examination within three days thereafter. Any active or retired member who refuses to submit to such examination or examinations shall forfeit all rights to benefits under this section for the period of the refusal.

(b) The disability board shall designate the medical services available to any sick or disabled member.

(2) The medical services payable under this section will be reduced by any amount received or eligible to be received by the member under workers' compensation, social security including the changes incorporated under Public Law 89-97, insurance provided by another employer, other pension plan, or any other similar source. Failure to apply for coverage if otherwise eligible under the provisions of Public Law 89-97 shall not be deemed a refusal of payment of benefits thereby enabling collection of charges under the provisions of this chapter.

(3) Upon making the payments provided for in subsection (1) of this section, the employer shall be subrogated to all rights of the member against any third party who may be held liable for the member's injuries or for payment of the cost of medical services in connection with a member's sickness or disability to the extent necessary to recover the amount of payments made by the employer.

(4) Any employer under this chapter, either singly, or jointly with any other such employer or employers through an association thereof as provided for in chapter 48.21 RCW, may provide for all or part of one or more plans of group hospitalization and medical aid insurance to cover any of its employees who are members of the Washington law enforcement officers' and firefighters' retirement system, and/or retired former employees who were, before retirement, members of the retirement system, through contracts with regularly constituted insurance carriers, with health maintenance organizations as defined in chapter 48.46 RCW, or with health care service contractors as defined in chapter 48.44 RCW. Benefits payable under any the [under the] plan or plans shall be deemed to be amounts received or eligible to be received by the active or retired member under subsection (2) of this section.

(5) Any employer under this chapter may, at its discretion, elect to reimburse a retired former employee under this chapter for premiums the retired former employee has paid for medical insurance that supplements Medicare, including premiums the retired former employee has paid for Medicare part B coverage.

### ***Note 3 - Detailed Notes on All Funds (Continued)***

RCW 41.26.030(22) defines the actual medical services to be provided to LEOFF I members.

“Medical services” for plan 1 members, shall include the following as minimum services to be provided. Reasonable charges for these services shall be paid in accordance with RCW 41.26.150.

- (a) Hospital expenses: These are the charges made by a hospital, in its own behalf, for
  - (i) Board and room not to exceed semiprivate room rate unless private room is required by the attending physician due to the condition of the patient.
  - (ii) Necessary hospital services, other than board and room, furnished by the hospital.
  - (iii) Other medical expenses: The following charges are considered "other medical expenses", provided that they have not been considered as "hospital expenses".
    - a. The fees of the following:
      - i. A physician or surgeon licensed under the provisions of chapter 18.71 RCW;
      - ii. An osteopathic physician and surgeon licensed under the provisions of chapter 18.57 RCW;
      - iii. A chiropractor licensed under the provisions of chapter 18.25 RCW.
    - b. The charges of a registered graduate nurse other than a nurse who ordinarily resides in the member's home, or is a member of the family of either the member or the member's spouse.
    - c. The charges for the following medical services and supplies:
      - i. Drugs and medicines upon a physician's prescription;
      - ii. Diagnostic X-ray and laboratory examinations;
      - iii. X-ray, radium, and radioactive isotopes therapy;
      - iv. Anesthesia and oxygen;
      - v. Rental of iron lung and other durable medical and surgical equipment;
      - vi. Artificial limbs and eyes, and casts, splints, and trusses;
      - vii. Professional ambulance service when used to transport the member to or from a hospital when injured by an accident or stricken by a disease;
      - viii. Dental charges incurred by a member who sustains an accidental injury to his or her teeth and who commences treatment by a legally licensed dentist within ninety days after the accident;
      - ix. Nursing home confinement or hospital extended care facility;
      - x. Physical therapy by a registered physical therapist;
      - xi. Blood transfusions, including the cost of blood and blood plasma not replaced by voluntary donors;
      - xii. An optometrist licensed under the provisions of chapter 18.53 RCW

***Plan Description (Long-Term Care Insurance)*** - To address the “nursing home confinement or hospital extended care facility” requirement under Washington law, we have a contract with UNUM insurance for long-term-care. The policy covers the following:

- Up to \$3,000 per month toward a long term residential care facility;
- Up to \$1,800 per month toward an assisted living facility;

These amounts are adjusted for inflation on an annual basis.

***Plan Description (Medicare Premiums)*** - The City also pays the Medicare premium for qualifying LEOFF I retirees as outlined in RCW 41. The cost of this premium (approximately \$100 per month in 2014) is offset by a lower insurance premium.

***Funding Policy-*** Funding for LEOFF 1 retiree healthcare costs is provided by the City as required by RCW. The City has not advance-funded or established a funding methodology for the annual OPEB costs or to retire the net OPEB obligation (i.e., the City’s funding policy is based upon pay-as-you-go financing requirements).

**Note 3 - Detailed Notes on All Funds (Continued)**

**Annual OPEB Cost and Net OPEB Obligation** – The following table includes the City’s annual OPEB cost for the last two years, the amount actually contributed to the plan, and the changes in the City’s net OPEB obligation:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Annual required contribution (ARC)	\$ 967,721	\$ 1,007,791
Interest on net pension obligation	83,174	63,235
Contributions made	(336,170)	(430,363)
Amortization of net OPEB obligation	<u>(187,019)</u>	<u>(142,185)</u>
Increase in net OPEB obligation	527,706	498,478
Net OPEB obligation beginning of year	<u>2,079,349</u>	<u>1,580,871</u>
Net OPEB obligation end of year	<u>\$ 2,607,055</u>	<u>\$ 2,079,349</u>

**Funded Status and Funding Progress** – Since this is the fifth year of the plan, multiyear trend data is only available for five years. The City’s funding status based upon the two most recent alternative method calculations follows:

<u>Schedule of Funding Progress</u>						
	(1)	(2)	(3)	(4)	(5)	(6)
Measurement	Actuarial	Actuarial	Funded	Unfunded	Annual	UAAL as a
Date	Value	Accrued	Ratio	AAL/(UAAL)	Covered	Percentage of
	of Assets	Liability (AAL)	(1)/(2)	(2)-(1)	Payroll*	Covered
						Payroll
12/31/2010	\$ -	\$ 7,703,942	0.0%	\$ 7,703,942	\$ -	N/A
12/31/2011	-	8,369,518	0.0%	8,369,518	-	N/A
12/31/2012	-	7,678,571	0.0%	7,678,571	-	N/A
12/31/2013	-	11,205,013	0.0%	11,205,013	-	N/A

\* The covered payroll was zero as all covered employees are retired.

**Alternative Measurement Method and Assumptions** – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of the calculation of the OPEB.

The City used the alternative measurement method to calculate the unfunded Accrued Actuarial Liability (AAL). The estimates of the values reported and assumptions about the probability of the future are actuarially determined amounts and are subject to continual revision and are compared to past expectations and new estimates are about future and actuarial calculations reflect a long term perspective. A single retirement age of 56.24 was assumed for all active members for the purpose of determining the AAL and normal cost. Retirement, disablement, termination and mortality rates were assumed to follow the LEOFF 1 rates used in the June 30, 2011 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF 1 medical study performed in 2013. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the AAL was the Projected Unit Credit method. The AAL and Net OPEB Obligation are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

### ***Note 3 - Detailed Notes on All Funds (Continued)***

The City's alternative measurement information is as follows:

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Dollar Amount, Open
Amortization Period	15 years
Asset Valuation Method	N/A
Actuarial Assumptions:	
Investment rate of return	N/A
Healthcare Cost Trend Rate	6.625%

#### ***3-J. Fund Equity***

***Fund Balances*** – Fund balances are classified as follows:

- ***Nonspendable*** – The following fund balances are nonspendable because they are not in spendable form:

***General Fund:***

Inventories	<u>\$ 23,665</u>
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- ***Restricted*** – The following fund balances are legally restricted to specified purposes:

***Street Construction Fund:***

Street construction	<u>\$ 235,019</u>
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***Capital Improvements Fund:***

Park improvements	\$ 635,103
Cable improvements	<u>147,408</u>

***Total Capital Improvements Fund:***

\$ 782,511

***Nonmajor Governmental Funds:***

Street improvements	\$ 30,927
Tourism promotion	27,069
Rental housing inspections	275,754
Transportation improvements	25,101
Debt service	41,584
Capital outlay	<u>217,675</u>

***Total Nonmajor Governmental Funds:***

\$ 618,110

- ***Committed*** – The following fund balances are committed to specific purposes:

***General Fund:***

Working capital	\$ 635,285
Catastrophic fluctuations	739,230
Accrued leave	<u>53,661</u>

***Total General Fund***

\$ 1,428,176

### **Note 3 - Detailed Notes on All Funds (Continued)**

- **Assigned** – The following fund balances are assigned to specific purposes:

#### **General Fund:**

Service charge relief	<u>\$ 31,222</u>
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#### **Street Construction Fund:**

Street construction	<u>\$ 1,190,170</u>
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#### **Capital Improvemnt Fund:**

Capital assets	<u>\$ 207,371</u>
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**Net Investment in Capital Assets** – The net investment in capital assets, reported on the government-wide statement of net position as of December 31, 2014 are as follows:

	Governmental Activities	Business- type Activities
Net investment in capital assets:		
Total capital assets	\$ 52,201,433	\$ 57,281,954
Less accumulated depreciation	<u>27,710,626</u>	<u>17,992,765</u>
Net capital assets	24,490,807	39,289,189
Less capital related debt	1,260,000	17,075,268
Add unspent bond proceeds	-	6,220,000
Less unamortized bond premium	<u>-</u>	<u>1,037,881</u>
Net investment in capital assets	<u>\$ 23,230,807</u>	<u>\$ 27,396,040</u>

### **Note 4 - Other Notes**

#### **4-A. Risk Management**

The City is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 162 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sub-limits in the excess layers. The Board of Directors determines the limits and terms of coverage annually. For the years 2008 through 2013 the City's insurance settlements have not exceeded its insurance coverage.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

#### ***Note 4 - Other Notes (Continued)***

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

#### ***4-B. Contingent Liabilities***

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. These audits could result in a request for reimbursement to the grantor agency for costs disallowed under terms of the grant. Based on prior experience, the City believes such disallowances, if any, will be immaterial.

The City was a defendant in several lawsuits at December 31, 2014. In the opinion of City management, the outcome of these contingencies will not have a material effect on the financial position of the City.

#### ***4-C. Joint Ventures***

***Snohomish County Emergency Radio System*** - The City participates in a single joint venture with Snohomish County and other local governments in the "*Snohomish County Emergency Radio System*," (SERS) a public non-profit corporation formed in 1999. The purpose of SERS is to design, develop, finance, acquire, install, operate, maintain and repair and replace the county's public safety communications service.

SERS was established via an interlocal agreement between the County, eight cities, and a fire district located within the county. Each member city and the County provide a voting member to the SERS board of directors. The purpose of SERS is to develop a countywide public safety communications system. The County financed its investment in SERS with general obligations bond proceeds.

The Cities of Brier, Edmonds, Everett, Lynnwood, Marysville, Mill Creek, Mountlake Terrace, Mukilteo and Woodway, and Snohomish County are jointly responsible for the financing of SERS. The interlocal agreement details clearly an allocation formula that determines each member's share in the joint venture and its reported equity interest in their respective financial statements. It incorporates population, geographic service area and usage of emergency service via service calls to dispatch centers. Each member provides a voting representative to SERS governing board of directors. The SERS board has the authority to approve system design, project expenditures and adopt SERS budget.

At December 31, 2014, the City owned an equity interest in the SERS joint venture of \$272,555. This value has been recorded in the government wide statements as an asset for the year ended December 31, 2014. The County financed its capital contribution to SERS via the issuance of bonded debt. The equity interest is adjusted to the extent of revenues and expenditure transactions occurring between the County and SERS as recorded in the County's financial system. The County, who acts as the entity's fiscal agent under the Administrative Services Agreement signed on January 19, 2000, prepares the unaudited financial information. Separate financial statements for the Snohomish County Emergency Radio System can be obtained from Snohomish County, Finance Department, 3000 Rockefeller Avenue, Everett, WA 98201

#### **Note 4 - Other Notes (Continued)**

**Southwest Snohomish County Public Safety Communications Agency** - The City of Mountlake Terrace participates in a single joint venture with other local governments in the “Southwest Snohomish County Public Safety Communications Agency,” (SNOCOM) a public non-profit corporation formed in 1971 and incorporated in 2014. The purpose of SNOCOM is to provide public safety communications, records retention and usage and other board approved functions.

SNOCOM was established via an interlocal agreement between the City of Mountlake Terrace, six other cities and Snohomish County Fire District 1 all located within the county. Each member city and the Fire District provide voting members to the SNOCOM board of directors. The purpose of SNOCOM is to provide communications and dispatching for public health and safety services in Southwest Snohomish County.

The Cities of Brier, Edmonds, Lynnwood, Mill Creek, Mountlake Terrace, Mukilteo, Woodway and Fire District 1 are jointly responsible for the financing of SNOCOM. The interlocal agreement details clearly an allocation formula that determines each member's share in the joint venture and its reported equity interest in their respective financial statements. It incorporates each agency's population, assessed value and usage of 911 calls for service. Each member provides a voting representative to SNOCOM governing board of directors. The SNOCOM board has the authority to approve project expenditures and adopt SNOCOM budget.

At December 31, 2014, the City of Mountlake Terrace owned an equity interest in the SNOCOM joint venture of \$437,357. This value has been recorded in the government wide statements as an asset for the year ended December 31, 2014. The equity interest is adjusted to the extent of revenues and expenditure transactions occurring between the City of Mountlake Terrace and SNOCOM as recorded in the City of Mountlake Terrace's financial system. The City of Mountlake Terrace, who acts as the entity's fiscal agent under the Interlocal Agreement for Financial Services signed on November 25, 2009, prepares the unaudited financial information. Separate financial statements for the Snohomish County Public Safety Communication Agency can be obtained from the City of Mountlake Terrace, Finance Department, 6100 219<sup>th</sup> St SW, Suite 200, Mountlake Terrace, WA 98043.

**Alliance for Housing Affordability (AHA)** - In September, 2013, the City joined the cities of Everett, Granite Falls, Lake Stevens, Lynnwood, Marysville, Mill Creek, Mountlake Terrace, Mukilteo, and Snohomish, the Town of Woodway, and Snohomish County to establish the Alliance for Housing Affordability (AHA). The agreement was amended in May, 2014 to add the City of Arlington and in June, 2014 to add the City of Stanwood.

The purpose of AHA is to cooperatively formulate affordable housing goals and policies and to foster efforts to provide affordable housing by providing expertise and information to member jurisdictions. Operating funding is provided by the member cities.

AHA is governed by a Joint Board composed of an elected official from each member. The Joint Board is responsible for review and approval of all budgetary, financial, policy, and contractual matters. The Board is assisted by an administrative staff housed at the Housing Authority for Snohomish County. Fiscal agent duties are performed by the City.

Each member city is responsible for contributing operating revenues as determined from the AHA annual budget. Contributions from the member cities are based on each member's population. A grant from the Gates Foundation provided \$50,000 to assist with the first two years of organizational start-up. The City's equity share to date is:

<b>Calendar Year</b>	<b>AHA Budget</b>	<b>City's Share of AHA's Budget</b>	
		<b>Amount</b>	<b>Percentage</b>
2014	\$ 92,543	\$ 1,224	1.32%
2015	123,464	1,529	1.24%

Members withdrawing from the agreement relinquish all rights to any reserve funds, equipment, or material purchased. Upon dissolution, the agreement provides for distribution of net assets among the members based on the percentage of the total annual contributions during the period of the agreement paid by each member.



#### ***Note 4 - Other Notes (Continued)***

Budget monitoring information can be obtained from Sonja Springer, Finance Director, City of Mountlake Terrace, 6100 219<sup>th</sup> Street SW, Mountlake Terrace WA 98043 (or email: [sspringer@ci.mlt.wa.us](mailto:sspringer@ci.mlt.wa.us)) or from Kristina Gallant, Housing Analyst, Alliance for Housing Affordability, 12625 4<sup>th</sup> Ave W, Suite 200, Everett, WA 98204

***Edmonds Wastewater Treatment Plant*** - The majority of the City's wastewater treatment services are provided by the City of Edmonds and Mountlake Terrace is a part owner of the Edmonds Wastewater Treatment Plant (EWWTP). A thirty year interlocal agreement between the two cities was signed in 1988 and will expire in 2018. According to the EWWTP Interlocal agreement, the City of Mountlake Terrace is responsible for paying 23.174% of the total capital improvement costs of this plant. The value of the City's share of EWWTP is included in the City's Intangible Asset section of the Sewer Utility Fund's capital assets.

***Emergency Services Coordinating Agency (ESCA)*** - In accordance with generally accepted accounting principles, ESCA is a joint venture with each entity's equity interest reported on its member entities' financial statements.

Ten member agencies provide the majority of operating revenue to ESCA. The method of allocating this revenue source is defined in the *Interlocal Agreement for the Emergency Services Coordinating Agency Section 4 Budgeting and Financial Participation* 4.1 "Annual budget participation shall be based upon the population of each party compared to the total population of the parties. Operating payments shall be made by January 31 of each year". Section *7 Term and Dissolution* states, "The value of the assets shall be then apportioned between the parties to the agreement in the same proportion as their financial participation in the budget year of dissolution".

As of 12/31/14, Mountlake Terrace's cash equity interest is estimated to be the following: 10.87% \$22,520  
Plus physical assets (inventory available upon request)

On June 25, 2015 the Agency members passed resolution (2015-3) to dissolve ESCA during the 2015 fiscal year. The Agency is currently working to determine the full equity interest to be allocated to each member upon dissolution.

#### ***4-D. Encumbrance Commitments***

As of December 31, 2014, the City has encumbered amounts that they intend to honor in the subsequent fiscal year for the following major governmental funds and nonmajor in the aggregate:

##### ***Major Governmental Funds:***

General Fund	\$ 64,599
Street Construction Fund	651,540
Capital Improvements Fund	<u>79,169</u>

<b><i>Total Major Governmental Funds</i></b>	<b><i>\$ 795,308</i></b>
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City of Mountlake Terrace, Washington  
*General Fund*  
*Schedule of Revenues, Expenditures and*  
*Changes in Fund Balances - Budget and Actual*  
*For the Year Ended December 31, 2014*

	Original Budget	Final Budget	Actual	Variance With Final Budget
<b>Revenues</b>				
Taxes	\$ 10,554,245	\$ 10,733,050	\$ 10,391,014	\$ (342,036)
Licenses and permits	956,000	959,170	821,509	(137,661)
Intergovernmental	529,197	491,613	535,167	43,554
Charges for services	5,043,833	5,072,833	3,101,869	(1,970,964)
Fines and forfeitures	425,000	425,000	364,667	(60,333)
Rents and leases	318,552	316,552	205,730	(110,822)
Investment earnings	41,691	30,150	35,398	5,248
Miscellaneous	144,300	149,300	135,746	(13,554)
<b>Total Revenues</b>	<b>18,012,818</b>	<b>18,177,668</b>	<b>15,591,100</b>	<b>(2,586,568)</b>
<b>Expenditures</b>				
<b>Current:</b>				
General government	3,186,070	3,581,661	1,891,167	1,690,494
Judicial	741,213	801,213	794,585	6,628
Public safety	8,086,945	8,044,990	8,169,099	(124,109)
Physical environment	51,000	51,000	40,600	10,400
Community development	1,118,525	1,363,360	1,213,309	150,051
Culture and recreation	3,795,762	3,704,339	3,242,614	461,725
<b>Total Expenditures</b>	<b>16,979,515</b>	<b>17,546,563</b>	<b>15,351,374</b>	<b>2,195,189</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>1,033,303</b>	<b>631,105</b>	<b>239,726</b>	<b>(391,379)</b>
<b>Other Financing (Uses)</b>				
Transfers out	(1,187,337)	(1,254,765)	(1,125,727)	129,038
<b>Net Change in Fund Balances</b>	<b>\$ (154,034)</b>	<b>\$ (623,660)</b>	<b>(886,001)</b>	<b>\$ (262,341)</b>
<b>Fund Balances Beginning of Year</b>			<b>2,683,719</b>	
<b>Fund Balances End of Year</b>			<b>\$ 1,797,718</b>	

See accompanying notes to the required supplementary information

City of Mountlake Terrace, Washington  
*Street Construction Fund*  
*Schedule of Revenues, Expenditures and*  
*Changes in Fund Balances - Budget and Actual*  
*For the Year Ended December 31, 2014*

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<b>Revenues</b>				
Intergovernmental	\$ 379,000	\$ 1,519,004	\$ 1,506,015	\$ (12,989)
Charges for services	130,000	710,000	616,739	(93,261)
Investment earnings	25,541	35,541	51,350	15,809
Miscellaneous	-	30,000	82,245	52,245
<b>Total Revenues</b>	<u>534,541</u>	<u>2,294,545</u>	<u>2,256,349</u>	<u>(38,196)</u>
<b>Expenditures</b>				
<b>Current</b>				
Transportation	-	-	250,996	(250,996)
<b>Capital Outlay</b>	<u>3,992,850</u>	<u>4,670,932</u>	<u>3,008,765</u>	<u>1,662,167</u>
<b>Total Expenditures</b>	<u>3,992,850</u>	<u>4,670,932</u>	<u>3,259,761</u>	<u>1,411,171</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>(3,458,309)</u>	<u>(2,376,387)</u>	<u>(1,003,412)</u>	<u>1,372,975</u>
<b>Other Financing Sources</b>				
Inception of intergovernmental loan	3,213,251	973,956	108,302	(865,654)
Transfers in	<u>176,700</u>	<u>320,000</u>	<u>320,000</u>	<u>-</u>
<b>Other Financing Sources</b>	<u>3,389,951</u>	<u>1,293,956</u>	<u>428,302</u>	<u>(865,654)</u>
<b>Net Change in Fund Balances</b>	<u>\$ (68,358)</u>	<u>\$ (1,082,431)</u>	<u>(575,110)</u>	<u>\$ 507,321</u>
<b>Fund Balances Beginning of Year</b>			<u>2,000,306</u>	
<b>Fund Balances End of Year</b>			<u>\$ 1,425,196</u>	

See accompanying notes to the required supplementary information

**City of Mountlake Terrace, WA**  
***Notes to the Required Supplementary Information***  
***For the Year Ended December 31, 2014***

***Note 1 – Budgetary Basis of Accounting***

The City adopts an annual budget on a basis consistent with generally accepted accounting principles (GAAP) for the general fund and the major special revenue fund.

**City of Mountlake Terrace**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2014**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Total	
CDBG - Entitlement Grants Cluster							
Office Of Community Planning And Development, Department Of Housing And Urban Development (via Snohomish County HUD)	Community Development Block Grants/Entitlement Grants	14.218	CHS-13-21- 1305-236	72,316	-	72,316	2
Office Of Community Planning And Development, Department Of Housing And Urban Development (via HUD HASCO)	Community Development Block Grants/Entitlement Grants	14.218	HASCO HUD	4,474	-	4,474	3
Total CDBG - Entitlement Grants Cluster:				76,790	-	76,790	
Highway Planning and Construction Cluster							
Federal Highway Administration (fhwa), Department Of Transportation (via WA State DOT)	Highway Planning and Construction	20.205	STPUL- 2524(001) LA- 7799	444,227	-	444,227	2
Federal Highway Administration (fhwa), Department Of Transportation (via WA State DOT)	Highway Planning and Construction	20.205	STPUL- 2519(003)	411,319	-	411,319	2
Federal Highway Administration (fhwa), Department Of Transportation (via WA State DOT)	Highway Planning and Construction	20.205	HSIP- 000S(363)	189,700	-	189,700	2
Federal Highway Administration (fhwa), Department Of Transportation (via WA State DOT)	Highway Planning and Construction	20.205	CM-STPD- 0815(004)	120,149	-	120,149	2

Total Highway Planning and Construction Cluster:					1,165,395	-	1,165,395
<b>Highway Safety Cluster</b>							
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WA Traffic Safety Commission)	State and Community Highway Safety	20.600	2013 WASPC Traffic Safety Emergency		6,544	-	6,544
							2
Total Highway Safety Cluster:					6,544	-	6,544
<b>Other Programs</b>							
Bureau Of Justice Assistance, Department Of Justice	Bulletproof Vest Partnership Program	16.607	2011BUBX1105 7307		-	3,724	3,724
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WA Traffic Safety Commission)	National Priority Safety Programs	20.616	TZT		5,181	-	5,181
							2
Region 10, Environmental Protection Agency (via WA State Department of Commerce)	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	Agreement 12-63401-011		29,490	-	29,490
							2
Department Of Homeland Security (via WA State Emergency Mngmt)	Emergency Operations Center	97.052	E12-272		208,121	-	208,121
							2
<b>Section 8 Project-Based Cluster</b>							
Office Of Public And Indian Housing, Department Of Housing And Urban Development (via HUD HASCO)	Lower Income Housing Assistance Program_Section 8 Moderate Rehabilitation	14.856	HUD HASCO in Lieu of Taxes		11,067	-	11,067
							2
Total Section 8 Project-Based Cluster:					11,067	-	11,067
Total Federal Awards Expended:					1,502,588	3,724	1,506,312

**CITY OF MOUNTLAKE TERRACE**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2014**

**NOTE 1 - BASIS OF ACCOUNTING**

This schedule is prepared on the same basis of accounting as the city's financial statements. The city uses the modified accrual basis of accounting.

**NOTE 2 - PROGRAM COSTS**

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the city's portion, are more than shown.

**NOTE 3 – HASCO FUNDS TRANSFERRED TO THE CITY**

Snohomish County HASCO remitted \$304,123 in HUD grant funds to the city to perform housing inspections. In 2014 only a small portion of these funds has been expended..

## CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER OMB CIRCULAR A-133

### City of Mountlake Terrace Snohomish County January 1, 2014 through December 31, 2014

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the City of Mountlake Terrace.

<b>Finding ref number:</b> 2014-001	<b>Finding caption:</b> The City's internal controls over year-end closing procedures for payables were not adequate to ensure the financial statements were accurate and complete.
<b>Name, address, and telephone of auditee contact person:</b> Arlene Fisher, City Manager 6100 219th Street, Suite 200 Mountlake Terrace, Washington 98043 (425) 744-6205	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>The City of Mountlake Terrace does not concur with this finding.</i>  <i>The City has been reporting assets and liabilities in the same manner for more than 15 years, yet this is the first audit that has noted the reporting is in error.</i>  <i>The manner in which the City has historically reported assets and liabilities does not affect the bottom line of the City's finances.</i>  <i>This aside, the City has modified the manner in which assets and liabilities are reported, and this updated reporting method will continue in the future.</i>	
<b>Anticipated date to complete the corrective action:</b> The corrective action was completed within the timeframe of the 2014 audit (July 2015).	

## ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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Contact information for the State Auditor's Office	
<b>Deputy Director for Communications</b>	Thomas Shapley <a href="mailto:Thomas.Shapley@sao.wa.gov">Thomas.Shapley@sao.wa.gov</a> (360) 902-0367
<b>Public Records requests</b>	(360) 725-5617
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>